October 29, 2024

# TTK Healthcare Limited: Ratings reaffirmed; long-term rating removed from 'Rating Watch with Positive Implications' and 'Stable' outlook assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term fund-based facilities** | 32.50 | 32.50 | [ICRA]A+ (Stable); Reaffirmed, Removed from 'Rating Watch with Positive Implications', and 'Stable' outlook assigned |
| **Short-term non-fund-based facilities** | 7.75 | 7.75 | [ICRA]A1+; Reaffirmed |
| **Short-term proposed facilities** | 0.25 | 0.25 | [ICRA]A1+; Reaffirmed |
| **Short-term fund-based facilities interchangeable (sub limits)** | (16.00) | (16.00) | [ICRA]A1+; Reaffirmed |
| **Total** | **40.50** | **40.50** | |

**Instrument details are provided in Annexure-I*

## Rationale

ICRA had placed the long-term rating on Watch with Positive Implications and reaffirmed the short-term rating on the bank lines of TTK Healthcare Limited (TTKHL / company) following the sale of its human pharma business to Bharat Serums and Vaccines Limited on a slump sale basis and pending clarification over the application of sale proceeds of Rs. 802.8 crore (gross[1]). The proceeds from the divestment (net of taxes) were parked as fixed deposits in banks. With the longer-than expected timeline for decision on application of funds, ICRA has currently removed the watch on the long-term rating and assigned a stable outlook. ICRA will continue to monitor the business plans of the company and take suitable rating action, as and when further clarity on the same is available.

TTKHL has reported stable financial performance in FY2024 and H1 FY2025 and ICRA expects the same to sustain in the near to medium term, supported by its strong brand equity and strong liquidity. The ratings also remain supported by TTKHL's diversified revenue profile, strong brand equity and well-entrenched distribution network. TTKHL remains net-debt negative and had unencumbered cash and liquid investment of Rs. 906.1 crore benefitting from its low working capital intensity, limited capex requirements and proceeds from sale of the human pharma business in FY2023. The conservative debt levels have resulted in strong capital structure, reflected in gearing of 0.03 times as on September 30, 2024, and interest coverage of 9.5 times in H1 FY2025. The company's liquidity position is expected to remain strong going forward as well, aided by its cash reserves, absence of long-term debt and limited capex plans over the medium term.

The long-term rating is, however, constrained by TTKHL's moderate scale, as reflected by its revenues of Rs. 752.8 crore in FY2024 and Rs. 406.4 crore in H1 FY2025. The margins also remain low at 5.1% for FY2024 and 3.7% in H1 FY2025, due to the distribution nature of its business in certain segments and limited value addition in other segments. In H1 FY2025, the margins dropped to 3.7% from 5.0% in H1 FY2024, mainly due to higher selling and brand promotion expenses. The company remains exposed to intense competition in most product segments from both organised and unorganised players. Further, in order to maintain its market share and brand equity, continuous sales promotion, advertisement and branding are required, which add to cost. Nevertheless, the company's strong brand equity would continue to support its revenues while benefits from operating leverage as revenues scale up, cost-optimisation measures undertaken and interest income would support accruals, going forward.

[1] *Prior to adjustments towards income tax and other related expenses*

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its strong brand equity, well-entrenched distribution network and strong liquidity position.

## Key rating drivers and their description

### Credit strengths

**Strong financial profile –** TTKHL's financial profile is supported by strong debt metrics and liquidity. TTKHL remains net-debt negative and had encumbered cash and liquid investment of Rs. 906.1 crore benefitting from its low working capital intensity, limited capex requirements and proceeds from sale of the human pharma business in FY2023. The conservative debt levels have resulted in strong capital structure, reflected in gearing of 0.03 times as on September 30, 2024, and interest coverage of 9.5 times in H1 FY2025. The company's liquidity position is expected to remain strong going forward as well, aided by its cash reserves, absence of long-term debt and limited capex plans over the medium term.

**Strong brand equity and well-entrenched distribution network –** The company is a part of the reputed TT Krishnamachari Group, a conglomerate with presence of more than six decades, with strong brand equity across product segments. Further, TTKHL has a widespread distribution network and has periodically invested in brand building. It has managed to cross-leverage its existing distribution network and establish brand presence across product segments, which include contraceptives, gripe water, cosmetics, medical devices, homecare and food products, thus enabling it to gain competitive edge over its peers.

**Diversified product profile –** TTKHL derives its revenues from various segments, such as animal welfare products, consumer products, food products, protective and medical devices, to name a few. The diversification insulates the company's revenues from slowdown in any specific segment/product, to a large extent.

### Credit challenges

**Moderate scale of operations; low profit margins –** TTKHL's scale remains moderate, as reflected by its revenues of Rs. 752.8 crore in FY2024 and Rs. 406.4 crore in H1 FY2025. The margins also remain low at 5.1% for FY2024 and 3.7% in H1 FY2025, due to the distribution nature of its business in certain segments and limited value addition in other segments. In H1 FY2025, the margins dropped to 3.7% from 5.0% in H1 FY2024, mainly due higher selling and brand promotion expenses. Nevertheless, the company's strong brand equity would continue to support its revenues while benefits from operating leverage as revenues scale up, cost-optimisation measures undertaken and interest income would support accruals, going forward.

**Intense competition and need for sustained brand-building efforts –** The company remains exposed to intense competition in most product segments from both organised and unorganised players. Further, in order to maintain its market share and brand equity, continuous sales promotion, advertisement and branding are required, which add to cost. However, the company's ability to pass on cost inflation and maintain its margins in a rangebound manner over a period of time mitigate the risk to an extent.

## Liquidity position: Strong

The company's liquidity position remains strong supported by unencumbered cash and liquid investments of Rs. 906.1 crore as on September 30, 2024, and anticipated healthy cash flow from operations. Also, TTKHL does not have any long-term debt in its books. In relation to these sources of cash, the company has relatively low capex over the medium term, comprising minimum maintenance capex of ~Rs. 10.0-12.0 crore per annum in FY2025-FY2027 and capex of ~Rs. 20 crore towards capacity enhancement for some products, to be funded by internal accruals. Overall, ICRA expects TTKHL to be able to meet its medium-term commitments through internal sources of cash and yet be left with healthy cash/liquid investments surplus.

## Rating sensitivities

**Positive factors –** Sustained and significant improvement in scale of operations and earnings while maintaining debt indicators at comfortable levels could accelerate transition towards a higher rating. Specific parameters that could lead to an upgrade include core ROCE greater than 20% on a sustained basis.

**Negative factors –** Downward pressure in the ratings could arise with sustained deterioration in profit margins, or stretch in working capital cycle or any large, debt-funded capex or acquisitions leading to deterioration in debt indicators.

## Environmental and social risks

**Environmental considerations:** Akin to other FMCG companies, TTKHL remains exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste. Further, the company will need to adapt to increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions. In addition, there is also a trend towards using organically grown input materials and increasing focus on carbon neutrality. Such developments can potentially increase costs for TTKHL, although it is partly mitigated by the company's adequate pricing power. Accordingly, TTKHL has low exposure to environmental risks.

**Social considerations:** TTKHL has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and service businesses, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem are essential for disruption-free operations. This apart, any quality concerns could impact brand equity. Also, certain product categories could be impacted because of health consciousness. TTKHL's overall exposure to social risks remains low to moderate, akin to other Fast-moving consumer goods (FMCG) players.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>FMCG |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the company's standalone financials. |

## About the company

TTK Healthcare Limited (TTKHL) commenced operations in 1958 as a pharmaceutical company. Over the years, it has diversified its presence across industries, with revenue sources distributed across many product categories, including contraceptives, gripe water, cosmetics, medical devices, home-care products, and food products. TTKHL has adopted an outsourcing model for manufacturing most of its products, except for the food products, medical and protective devices divisions. The company is a part of the reputed TT Krishnamachari Group, a conglomerate with varied business interests including manufacturing of kitchen appliances, contraceptives, consumer products and healthcare products.

## Key financial indicators (audited)

| Standalone | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 725.1 | 752.8 |
| **PAT** | 639.7* | 62.8 |
| **OPBDIT/OI** | 4.4% | 5.1% |
| **PAT/OI** | 88.2% | 8.3% |
| **Total outside liabilities/Tangible net worth (times)** | 0.2 | 0.2 |
| **Total debt/OPBDIT (times)** | 0.8 | 0.6 |
| **Interest coverage (times)** | 10.9 | 14.0 |

*Source: Company, ICRA Research; Note: Amounts in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; *PAT for FY2023 includes profit from sale of human pharma business to the tune of Rs. 585.9 crore and profit from operations in the human pharma division to the tune of Rs. 9.1 crore till the sale date in FY2023.*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY2025 | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount Rated (Rs Crore) | 29-OCT-2024 | Date | Rating | Date | Rating | Date | Rating |
| Long term-cash credit-fund based | Long Term | 32.50 | [ICRA]A+ (Stable) | 04-SEP-2023 | [ICRA]A+; Rating Watch with Positive Implications | 07-JUL-2022 | [ICRA]A+% | 10-MAY-2021 | [ICRA]A+ (Stable) |
| | | | - | - | - | - | - | 30-MAR-2022 | [ICRA]A+% |
| Short term-others-non fund based | Short Term | 7.75 | [ICRA]A1+ | 04-SEP-2023 | [ICRA]A1+ | 07-JUL-2022 | [ICRA]A1+ | 10-MAY-2021 | [ICRA]A1+ |
| | | | - | - | - | - | - | 30-MAR-2022 | [ICRA]A1+ |
| Short term-unallocated-unallocated | Short Term | 0.25 | [ICRA]A1+ | 04-SEP-2023 | [ICRA]A1+ | 07-JUL-2022 | [ICRA]A1+ | 10-MAY-2021 | [ICRA]A1+ |
| | | | - | - | - | - | - | 30-MAR-2022 | [ICRA]A1+ |
| Short term-others-interchangeable | Short Term | 16.00 | [ICRA]A1+ | 04-SEP-2023 | [ICRA]A1+ | 07-JUL-2022 | [ICRA]A1+ | 10-MAY-2021 | [ICRA]A1+ |
| | | | - | - | - | - | - | 30-MAR-2022 | [ICRA]A1+ |

*%= Under watch with positive Implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based facilities | Simple |
| Short-term Non-fund-based facilities | Very Simple |
| Short-term Proposed facilities | Not applicable |
| Short-term Fund-based facilities interchangeable (Sub limits) | Very 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** | Long-term Fund-based facilities – CC | NA | NA | NA | 32.50 | [ICRA]A+(Stable) |
| **NA** | Short-term Non-fund-based facilities | NA | NA | NA | 7.75 | [ICRA]A1+ |
| **NA** | Short-term Proposed facilities | NA | NA | NA | 0.25 | [ICRA]A1+ |
| **NA** | Short-term Fund-based facilities interchangeable (Sub limits) | NA | NA | NA | (16.00) | [ICRA]A1+ |

*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

## ANALYST CONTACTS


**Shamsher Dewan**
+91 124 4545 328
shamsherd@icraindia.com

**Srikumar K**
+91 44 4596 4318
ksrikumar@icraindia.com

**Vinutaa S**
+91 44 4596 4305
vinutaa.s@icraindia.com

**Bikram Keshari Swar**
+91 44 4596 4311
bikram.swar@icraindia.com


## RELATIONSHIP CONTACT


**L. Shivakumar**
+91 22 6114 3406
shivakumar@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.

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## ICRA Limited

### Registered Office

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

### Branches