July 07, 2022

TTK Healthcare Limited: Long-term rating continues on watch with positive implications; short-term rating reaffirmed

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+ %; remains on watch with positive implication
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*

% Rating under watch with positive implications

Rationale

On March 30, 2022, the long-term rating of TTK Healthcare Limited ('TTKHL'/'company') was placed on watch with positive implications. This follows the definitive agreement entered on March 21, 2022, and shareholders' approval to sell the Human Pharma Division to M/s BSV Pharma Private Limited and Miransa Limited (an affiliate of Advent International) on slump sale basis, subject to necessary approvals. The total value of the consideration is Rs. 805.0 crore (subject to adjustment for working capital and other items that are customary in such transactions) and was planned to be settled to the extent of 74% in cash and 26% by way of allotment of Equity Shares.

In May 2022, the sale of human pharma division was concluded, and TTKHL received 74% of the consideration in cash and the balance 26% in the form of Equity Shares in M/s BSV Pharma Private Limited. The cash proceeds are parked in fixed deposits with banks and the 26% stake is likely to be monetized post the regulatory clearances. With limited clarity over application of proceeds, the long-term rating continues to remain on watch with positive implications.

The ratings remain supported by TTKHL's stable operational profile, its diversified presence across business segments, well-entrenched brand position in key product segments and wide distribution network across the country. The ratings also consider the healthy financial flexibility of TTKHL being part of the larger TT Krishnamachari group and comfortable financial risk profile of the company, characterised by strong cash reserves, stable accruals, comfortable capital structure and debt coverage indicators. The company's unencumbered cash reserves remain strong at Rs. 258.6 crore as of March 31, 2022. This coupled with consideration received with divestment of human pharma division strengthens its financial position.

The ratings, however, are constrained by its modest scale of operations and low profit margins inherent to distribution nature of business in applicable segments and due to limited value addition in product segments. The margins are also influenced by the level of advertisement spend given the intense competition in most of the business segments from both organised and unorganised players. With the hive-off of human pharma division, the operating income and earnings shall be contracted.

Key rating drivers and their description

Credit strengths

Established brand name and diversified business segments and product profile – TTKHL has a diversified product portfolio with revenues diversified across various segments, such as pharmaceuticals, consumer products, protective device, medical devices and foods, etc. The company is part of the reputed TT Krishnamachari Group, a multi-product conglomerate, with a track record of more than five decades and a strong brand equity in most of the product segments. While the scale of operations is moderate at the current levels, the diversification into various segments insulates its business profile from slowdown in any specific segment.

TTK's business operations include the pharmaceuticals (human pharma and animal pharma), consumer products, medical devices, protective devices, and foods segments. Within the human pharma division, operates through ethical and ventura pharma businesses wherein it was dealing in pharmaceutical formulations (both herbal and allopathic) in various therapeutic segments and food supplements. ICRA notes that the human pharma division contributed ~25% to revenues with strong gross margins through operations primarily carried out by third-party manufacturing. With the hive-off of this division, while the operating income is expected to moderate, the consideration received from the transaction is expected to be applied towards its other core business divisions.

Well-entrenched distribution network with wide market reach and effective sourcing capability – TTKHL has a well-spread distribution network with stable investments towards brand building. It manages to cross-leverage its existing distribution network and established brand presence across product segments, which include contraceptives, gripe water, cosmetics, medical devices, home-care products, and food products, thus enabling it to gain competitive edge over its peers.

Strong financial profile – TTKHL's financial profile is comfortable supported by strong cash reserves, stable earnings and cash flows. For FY2022, TTKHL reported revenues of Rs. 599.2 crore (without human pharma sales) and Rs. 797.3 crore (with human pharma sales). TTKHL's debt levels remain low, resulting in healthy capital structure as reflected by gearing of 0.1 time as on March 31, 2022, and interest coverage of 6.7 times in FY2022. The company's liquidity position is strong, backed by healthy cash balances, steady accruals, low debt repayment obligations and modest capex plans. In addition, consideration received as a part of human pharma division sale adds to the existing strong liquidity position.

Credit challenges

Medium scale of operations with low profit margins – With revenues of Rs. 599.2 crore (without human pharma sales) in FY2022, TTKHL's scale remains moderate, and the margins are low, inherent to the distribution nature of its business and limited value addition in other product segments. Moderation in consumer product and protective devices segments affected the company's sales growth in the last few years. The hive-off of the human pharma division will moderate revenues and margins given the division's strong gross margins and scale of operations.

Intense competition and need for sustained brand building efforts – In most of its product segments, TTKHL remains exposed to intense competition from both organised and unorganised players. In the consumer products segment, sustained spend towards brand building and sales promotion to support volumes and meet competition also results in low profit margins.

Liquidity position: Strong

The company's liquidity is strong with stable funds flow from operations and unencumbered cash balance and liquid investments of Rs. 258.6 crore (as on March 31, 2022).

Rating sensitivities

Positive factors – Enhanced business profile resulting in substantial improvement in scale of operations and earnings while maintaining debt indicators at comfortable levels could accelerate transition towards a higher rating. Specific parameters that shall support an improvement in rating will be core ROCE in excess of 20% on a sustained basis.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 1958, TTK Healthcare Limited commenced operations as a pharmaceutical company. Over the years, it 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 foods, medical and protective devices divisions. The company is a part of the reputed TT Krishnamachari Group, a multi-product conglomerate with varied business interests involving the manufacturing of kitchen appliances, contraceptives, consumer products and healthcare products. The Group's flagship company, TTK Prestige Limited, is one of the leading kitchen appliances companies in India.

Key financial indicators (audited)

TTKHL Standalone	FY2021	FY2022[1]
Operating income	636.5	599.2
PAT	46.4	41.6
OPBDIT/OI	5.5%	3.6%
PAT/OI	7.3%	6.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	0.5	1.0
Interest coverage (times)	15.7	6.7

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

Note – FY2022 and FY2021 financials are not comparable as the human pharma segment was divested.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] The operating income excludes the revenue from Human Pharma Division, given the slump sale to BSV Pharma Pvt Ltd

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					July 07, 2022	March 30, 2022	May 10, 2021	April 14, 2020	June 07, 2019
1	Fund based CC	Long-term	32.50	-	[ICRA]A+ %	[ICRA]A+ %	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non fund based	Short Term	7.75	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Proposed Facilities	Short Term	0.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based Sublimit	Short Term	(16.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term: Fund-based facilities (CC)	NA	NA	NA	32.50	[ICRA]A+ %
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 (Sub limits)	NA	NA	NA	(16.00)	[ICRA] A1+

Source: *Company; %= Under watch with positive Implications*

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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