

May 11, 2017

TTK Healthcare Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore)	Rating action
Long-term: Fund based facilities (CC)	22.50	[ICRA]A+ (stable) / re-affirmed
Short-term: Non-fund based facilities	4.75	[ICRA]A1+ / re-affirmed
Short-term: Proposed	0.25	[ICRA]A1+ / re-affirmed
Short-term: Fund based facilities (sub-limits)	(6.00)	[ICRA]A1+ / re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus)¹ outstanding on the Rs. 22.50-crore fund-based bank facilities of TTK Healthcare Limited (TTKHL). ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the Rs. 6.00-crore fund-based facilities (sub limits), the Rs. 4.75-crore non-fund based facilities and the Rs. 0.25-crore proposed facilities of the company. The outlook on the long-term rating is stable.

Rationale

The ratings consider TTKHL's strong operational profile supported by its diversified business segments, well entrenched market and brand position in key product segments, and wide distribution network. The ratings remain supported by the company's healthy financial profile characterised by stable growth in revenues and earnings, strong liquidity position and comfortable debt-protection metrics. TTKHL's business model remains largely asset light as its requirements in the pharmaceuticals and consumer products segments have been outsourced, thus aiding the capital structure and return on capital levels. The ratings, however, are constrained by thin profit margins due to low value addition in the distribution nature of business and high competitive pressures across product segments. The impending merger with TTK Protective Devices Limited (TTKPD, the contraceptive-manufacturing company) with TTKHL remains a key rating sensitivity as the consolidated earnings post merger witness some pressure.

Key rating drivers

Credit Strengths

- Promoter's strong commitment and vast experience of the management team
- Diversified business segments and product profile
- Established brands across product segments with leadership market position in many segments
- Well-entrenched distribution network with wide market reach and effective sourcing capability
- Comfortable capitalisation and coverage metrics; liquidity position supported by large cash balances

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Credit Weaknesses

- Thin margins inherent to the distribution nature of the business
- Expected near-term impact on earnings due to the impending merger with a loss making group entity
- Sustained brand-building efforts required across segments to grow volumes/earnings likely to keep margins under pressure

Description of key rating drivers:

A part of the reputed TT Krishnamachari Group, a multi-product conglomerate, TTKHL is an established player with strong promoter and management team. TTKHL has a diversified product portfolio, wide distribution network, strong brand equity, and leading market position in few segments like gripe water, cosmetics and heart valves. TTKHL's revenues are diversified across pharmaceuticals, consumer products, medical devices and foods, among others. In the consumer products and pharma segments, the production is mainly outsourced and finished goods are bought on principal-to-principal basis from third-party manufacturers. A portion of income is also derived from food and medical devices segments and the production is carried through its own manufacturing facilities. While the scale of operations is moderate at current levels, diversification into various segments insulates its business profile from any slowdown in a specific segment.

Inherent to the nature of distribution business, TTKHL's profit margins remain thin although the same is expected to improve with better returns from the foods segment. The company remains exposed to pricing pressures with intense competition in most of the product segments from both organised and unorganised players. While the currency demonetisation drive had an impact on the revenues and margins in Q3FY2017, TTKHL's financial profile during 9MFY2017 remained robust, marked by stable growth in revenues and earnings, strong liquidity profile marked by strong cash balances and buffer available on unutilised working-capital lines, and comfortable capitalisation and coverage indicators.

The proposed merger of TTK Protective Devices Limited (TTKPDL, the contraceptive-manufacturing company) with TTKHL remains delayed as the regulatory approvals is still pending. The management expects the process to be completed in FY2018. The merger is likely to impact TTKHL's consolidated earnings over the short term on account of the losses incurred by TTKPDL since FY2012 (with drop in volumes², given the high operating leverage in the business). However, over the medium term, increasing market share of its in-house 'Skore' brand, other business opportunities / avenues (including government business) and the focused cost restructuring initiatives undertaken is expected to turnaround the business. While the shift towards manufacturing of contraceptives is seen as a business positive in the medium to long-term on account of the improvement in overall value addition, TTKPDL's ability to improve volumes would be critical to support its consolidated earnings in the near term, and would remain a key rating sensitivity. Nevertheless, these risks are mitigated to some extent by the established market position and diverse revenue stream of TTKHL and the comfortable financial profile of both entities supported by their conservative capital structure and healthy cash reserves.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology

² TTK group discontinued sales of the "Durex and Kohinoor" brands as part of settlement reached by TTK Protective Devices Limited with its JV partner – Reckitt Benckiser



About the company:

Established in 1958, TTK Healthcare Limited commenced operations as a pharmaceutical company. Over the years, it diversified its presence across industries and its revenue sources were 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 and medical devices divisions. The revenue share from manufactured products is expected to increase with the impending merger of the contraceptive manufacturing group company with TTKHL.

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 company in India.

TTKPDL manufactures Skore brand of condoms that are distributed in the domestic market by TTKHL. TTKHL is in the process of amalgamating TTKPDL and TSL (a WOS of TTKPDL) with itself, where the regulatory approvals are yet to be completed. Upon amalgamation of the companies, the shareholders of TTKPDL will be entitled to nine fully paid-up shares of Rs. 10 each of TTKHL for two fully paid-up equity shares of Rs. 10 each of TTKPDL. The companies are being amalgamated to benefit from synergies arising from sharing the manufacturing, marketing and distribution processes under one entity. Following the merger, the stake of the promoter group would exceed 75% and the promoters have initiated steps for diluting the stake as required under the SEBI regulations.

As per the unaudited results for the first nine months of FY2017, TTKHL's operating income and profit after tax (PAT) stood at Rs. 413.4 crore and Rs. 13.8 crore, respectively, compared to Rs. 399.3 crore and Rs. 16.7 crore over the similar period last fiscal.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table: 1

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past three years the past			
		Type	Amount rated (Rs. crore)	May 2017	March 2016	April 2015	April 2014	
1	Fund based facilities (CC)	Long term	22.50	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	
2	Non-fund based facilities	Short term	4.75	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3	Proposed	Short term	0.25	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Fund based facilities (sub-limits)	Short term	(6.00)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity Date	Amount rated (Rs. crore)	Current rating and Outlook
Cash Credit	-	-	-	22.50	[ICRA]A+ (stable)
Non-fund based facilities	-	-	-	4.75	[ICRA]A1+
Proposed	-	-	-	0.25	[ICRA]A1+
Fund based facilities (sub-limits)	-	-	-	(6.00)	[ICRA]A1+

Source: TTKHL

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