May 10, 2021

TTK Healthcare Limited: Ratings reaffirmed at [ICRA]A+(Stable)/[ICRA]A1+

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
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-1*

Rationale

The ratings remain supported by the stable operational profile of TTK Healthcare Limited (TTKHL), its diversified presence across business segments, well-entrenched market and brand position in many of its 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 remains strong at Rs. 214.6 crore as of December 31, 2020 aided by stable cash flows from operations also complemented by receipt of income tax refund of Rs. 27.7 crore during 9M FY2021. For 9M FY2021, TTKHL reported revenues of Rs. 455.3 crore (down 10.6% YoY) impacted by the pandemic-led lockdown in H1 FY2021. Nevertheless, a sharp recovery in demand and TTKHL's strong brand image supported its revenues in most of its business segments in recent months.

The ratings, however, remain constrained by the company's 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. This apart, the margins are influenced by the high level of advertisement spend given the intense competition in most of the business segments from both organised and unorganised players. Accordingly, the spend towards sales promotion and brand-building activities are generally high thus impacting the cash accruals. A sustained improvement in scale and turnaround in product segments like cosmetics, medical devices and protective devices will be critical monitorables. This apart, any large impact on earnings from the second wave of COVID-19 remains to be seen.

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, 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.

Well-entrenched distribution network with wide market reach and effective sourcing capability – TTKHL has a well-spread distribution network across states, with stable investments towards brand building. It manages to cross-leverage its existing distribution network and its 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 and stable earnings and cash flows. For 9M FY2021, TTKHL reported revenues of Rs. 455.3 crore (down 10.6% YoY) affected by the pandemic impact.

The operating margins is at 4.5% for 9M FY2021; the company was able to maintain its margins with lower scale of operation due to reduction in travel and administrative expenses. In terms of net margins, the company posted margins of 7.9%. The increased margins are primarily due to tax refund of Rs. 27.7 crore arising from unabsorbed losses from erstwhile TTK Protective Devices Limited and TSL Techno Services Limited which was merged with TTK healthcare with effect from April 2012. In the absence of any large debt-funded capex, TTKHL's debt levels remain low, resulting in healthy capital structure as reflected by gearing of 0.03 times as on Dec 31, 2020 and interest coverage of 13.2 times and Total debt to OPBITDA of 0.3 times in 9M FY2021. The company liquidity position is strong backed by healthy cash balances, steady accruals, low debt repayment obligations and modest capex plans.

Credit challenges

Medium scale of operations with low profit margins – With revenues of Rs. 645.8 crore in FY2020, TTKHL's scale remains moderate (five-year CAGR of 6.0%) and the margins are low inherent to distribution nature of 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.

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

Liquidity position: Strong

The company's liquidity is strong and supported by estimated funds flow from operations of ~Rs. 20-25 crore per annum over the medium term, moderate working capital utilisation against its sanction limits of Rs.32.5 crore in the past twelve months, and unencumbered cash balance and liquid investment balance of Rs. 214.6 crore (as on Dec 31, 2020). With relatively minor capex commitment of ~Rs. 7.0 crore per annum over the medium term funded by internal accruals and strong cash balances, its liquidity position is expected to remain strong going forward.

Rating sensitivities

Positive factors – Substantial improvement in scale of operations and earnings while maintaining the 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 capital expenditure 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 (TTKHL) 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, 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 manufacture 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.

Key financial indicators (audited)

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	627.9	645.8
PAT (Rs. crore)	24.4	12.3
OPBDIT/OI (%)	8.1%	4.5%
PAT/OI (%)	3.9%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Adjusted Debt/OPBDIT (times)	0.6	1.0
Interest Coverage (times)	15.0	8.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 10, 2021	April 14, 2020	June 07, 2019	May 04,2018
1	Fund based CC	Long-term	32.50	-	[ICRA]A+ (Stable)	[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+
3	Proposed Facilities	Short Term	0.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based Sublimit	Short Term	(16.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term: Fund based facilities	Simple
Short term: Non-Fund Based facilities	Very Simple
Short term: Proposed Facilities	-
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 analyzing 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, is available on ICRA’s website: www.icra.in

Annexure-1: 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+/ 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 (Sub limits)	NA	NA	NA	(16.00)	[ICRA] A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

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

Nithya Debbadi
+91 40 4067 6515
Nithya.Debbadi@icraindia.com

Nareshkumar N
+91 95972 60257
nareshkumar.n@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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:

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ICRA Limited

Registered Office

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

Branches