June 07, 2019

TTK Healthcare Limited: 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+(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	**40.5**	**40.5**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation considers the stable operational profile of TTKHL, its diversified presence across business segments, its well-entrenched market and brand position in the key product segments, and its wide distribution network. A diversified profile helps the company in lowering the impact of slowdown in any product segment or market, lending stability to revenues and accruals. The ratings also consider the strong parentage and healthy financial position of the company, characterised by stable accruals, strong liquidity position, comfortable capital structure and coverage indicators.

The ratings, however, remain constrained by the company's modest scale of operations and thin profit margins due to low value addition and large advertisement spends. The ratings also consider the intense competition in most of the business segments from both organised and unorganised players. Accordingly, its spends towards sales promotion and brand-building activities are high, impacting the accruals. Higher scale, reduction in advertisement spend, and turnaround in product segments like food products will be critical in improving the accruals position of the company.

Outlook: Stable

ICRA believes that TTKHL will continue to benefit from its diversified business segments and product profile with a dominant market position in a few segments. The outlook may be revised to Positive with substantial growth in revenues and accruals. The outlook may be revised to Negative with a sharp deterioration in the company's financial profile.

Key rating drivers

Credit strengths

Diversified business segments and product profile with strong brand identity and recall - 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, gaining a competitive edge over its peers.

Strong financial profile - TTKHL's financial profile is strong with stable growth in earnings and cash flows. Its revenues grew 8.7% in FY2019 supported by an increase of 3.1% in consumer product segments, 12.5% in pharma, 31.3% in medical devices, 11.5% in food and 2.5% in protective devices. With a higher scale, its operating and net margins stood at 7.9% (up 50 bps) and 3.9% (up 80 bps). In the absence of any debt-funded capex and stable working capital cycle, TTKHL's debt levels have remained low, resulting in healthy capital structure as reflected by gearing of 0.1 times as on March 31, 2019. This, coupled with healthy profitability, has resulted in robust coverage indicators as reflected by interest coverage of 14.7 times, total debt/OPBDITA of 0.6 times and NCA/debt of 108% as on March 31, 2019.

The company's liquidity position remains strong as reflected by a healthy cash position of Rs. 125.6 crore as on March 31, 2019 and cushion in unutilised working capital limits. This, along with healthy cash flow generation and low working capital intensity of business, further augments the overall liquidity position. With nil debt-funded capex plans and strong cash balances, the liquidity position is expected to remain comfortable going forward.

Credit challenges

Medium scale of operations with low profit margins - With revenues of Rs. 627.9 crore in FY2019, TTKHL's scale remains moderate (five-year CAGR of 7%) and it commands low margins owing to the limited value addition in most of its segments. The absence of product launches, slower growth in the food segment and moderation in industry-level growth in consumer-related segments affected the company's sales growth in the last few years.

Intense competition - 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

The company has a strong liquidity profile marked by strong cash balances (Rs. 125.6 crore as on March 31, 2019) and buffer available on unutilised working capital lines. With limited capex spend and nil repayment obligations, the liquidity position is expected to remain comfortable in the medium term.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

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 and medical 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.

TTK Protective Devices Limited (TTKPDL) were manufacturing the Skore brand of condoms that are distributed in the domestic market by TTKHL. In December 2017, TTKHL merged TTKPDL and TSL (a wholly-owned subsidiary of TTKPDL) with itself. The amalgamation resulted in synergies arising from sharing the manufacturing, marketing and distribution processes under one entity.

Key financial indicators

	FY2018 (Audited)	FY2019 (Abridged)
Operating Income (Rs. crore)	577.5	627.9
PAT (Rs. crore)	18.2	24.4
OPBDIT/OI (%)	7.4%	7.9%
RoCE (%)	15.6%	15.6%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDITA (times)	1.1	0.6
Interest Coverage (times)	9.0	14.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating June 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 May 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 -
1	Fund based facilities (CC)	Long Term	32.50	-	[ICRA]A+ / Stable	[ICRA]A+ / Stable	[ICRA]A+ / Stable	-
2	Non-Fund Based facilities	Short Term	7.75	-	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	-
3	Proposed Facilities	Short Term	0.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	-
4	Fund based facilities (Sub limits)	Short Term	(16.00)	-	[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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term: Fund-based facilities (CC)	-	-	-	32.50	[ICRA]A+/ Stable
-	Short Term: Non-Fund Based facilities	-	-	-	7.75	[ICRA] A1+
-	Short Term: Proposed Facilities	-	-	-	0.25	[ICRA] A1+
-	Short Term: Fund-based facilities (Sub limits)	-	-	-	(16.00)	[ICRA] A1+

Source: TTK Healthcare Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable		

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