

April 14, 2020

## TTK Healthcare Limited: Ratings 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
<b>Total</b>	<b>40.50</b>	<b>40.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings considers 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 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 coverage indicators.

The ratings, however, remain constrained by the company's modest scale of operations and low profit margins due to limited 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 and protective devices will be critical in improving the accruals position of the company. The COVID-19 related factors on the company's performance over the near to medium term remains to be seen and will remain a key monitorable.

For 9M FY2020, TTKHL reported revenues of Rs.509.3 crore (or) 4.3% YoY growth led by improved performance of the pharma segment. However, the operating margins contracted by 310 bps YoY from YoY due to pricing pressure amidst intense competition in segments like consumer products, upfront spend on advertisements and brand promotions to support its new project launches. The company had strong unencumbered cash reserves of Rs.133.1 crore as of December 31, 2019.

### 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 strong with strong cash reserves and stable earnings and cash flows. Its revenues grew 4% YoY to Rs.509.3 crore in 9M FY2020 supported by robust growth in pharma and foods segments even as performance of protective devices segment was lower than expectations. The operating margins moderated from 8.1% in FY2019 to 5.0% in 9M FY2020 due to pricing pressure amidst intense competition in segments like consumer products, front ending of advertisement/brand promotion expenses in the first half of the year. However, 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 0.1 times as on Dec 31, 2019 and interest coverage of 10.9 times and Total debt to OPBITDA of 0.9 times in 9M FY2020. The company also benefits from strong liquidity position backed by healthy cash balances, steady accruals, low debt repayment obligations and modest capex plans. Going forward, ICRA expects the capitalization and coverage indicators to remain comfortable. The ongoing COVID-19 related factors is however likely to impact the revenues and margins due to demand slowdown, though the extent of impact remains to be seen.

## 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 8.6%) and it commands low margins owing to the limited value addition in most of its segments. The absence of major product launches, 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** with funds flow from operations estimated at nearly Rs. 20-25 crore per annum over the medium term, moderate utilisation against its sanction limits of Rs.32.50 crore in the past twelve months, and unencumbered cash balance and liquid investment balance of Rs.133.1 crore (as on Dec 31, 2019). In relation to these sources of cash, the company has minimal capex commitment of ~Rs.5.0-7.0 crore per annum over the medium term funded by internal accruals. Also, its debt repayments remain modest at Rs. 0.2-0.3 crore per annum over the medium term.

## Rating sensitivities

**Positive triggers** – 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 triggers** – 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. Sharp fall in demand due to COVID-19 related factors with consequent deterioration in earnings profile could also trigger a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	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, 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 (Standalone)

	FY2018 Audited	FY2019 Audited
Operating Income (Rs. crore)	577.5	627.9
PAT (Rs. crore)	18.2	24.4
OPBDIT/OI (%)	7.4%	8.1%
RoCE (%)	15.6%	15.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	1.1	0.6
Interest Coverage (times)	9.0	15.0
DSCR	7.5	11.3

Source: Company

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

**Any other information: None**

**Rating history for past three years**

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					14-April 2020	June 07, 2019	May 04,2018	May 11, 2017
1	Fund based CC	LT	32.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non fund based	ST	7.75	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Proposed Facilities	ST	0.25	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based Sublimit	ST	(16.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore*

**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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	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

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