

September 04, 2023

## 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+; continues on rating Watch with Positive Implications
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-I

### Rationale

The long-term rating outstanding on the bank lines of TTK Healthcare Limited (TTKHL/company) continues to be on Watch with Positive Implications, pending clarity over application of proceeds of Rs. 802.8 crore (gross<sup>1</sup>) from the human pharma business sale. In May 2022, TTKHL's human pharma business was sold to Bharat Serums and Vaccines Limited on a slump sale basis. At present, the entire proceeds from the divestment (net of taxes) are parked as fixed deposits in banks. ICRA will continue to monitor the business plans of the company and take suitable rating action, as and when further clarity on the same is available.

The ratings remain supported by TTKHL's diversified revenue profile, strong brand equity and well-entrenched distribution network and its strong financial profile. TTKHL has strong debt metrics, cash reserves and liquidity, and remains net-debt negative with unencumbered cash and bank balances of Rs. 863.5 crore as on June 30, 2023. TTKHL's scale remains moderate, as reflected by its revenues of Rs. 725.1 crore in FY2023 and Rs. 202.1 crore in Q1 FY2024. The margins also remain low at 4.4% for FY2023 and 5.0% for Q1 FY2024, due to the distribution nature of its business in certain segments and limited value addition in other segments. Also, the company remains exposed to intense competition in most product segments from both organised and unorganised players. Further, in order to maintain its market share and brand equity, continuous sales promotion, advertisement and branding are required, which add to cost. However, the company's ability to pass on cost inflation and maintain its margins in a rangebound manner mitigates the risk to an extent.

### Key rating drivers and their description

#### Credit strengths

**Strong brand equity; diversified business segments and product profile** – TTKHL derives its revenues from various segments, such as animal welfare products, consumer products, food products, protective and medical devices, to name a few. The diversification insulates the company's revenues from slowdown in any specific segment. The company is a part of the reputed TT Krishnamachari Group, a conglomerate with presence of more than six decades, and has strong brand equity across product segments.

<sup>1</sup> Prior to adjustments towards income tax and other related expenses

**Well-entrenched distribution network** – TTKHL has a widespread distribution network and has periodically invested in brand building. It has managed to cross-leverage its existing distribution network and established brand presence across product segments, which include contraceptives, gripe water, cosmetics, medical devices, homecare and food products, thus enabling it to gain competitive edge over its peers.

**Strong financial profile** – TTKHL's financial profile is supported by strong debt metrics, cash reserves and liquidity. TTKHL remains net-debt negative and had only working capital borrowings of Rs. 22.6 crore as on June 30, 2023, against cash and bank balances of Rs. 863.5 crore benefitting from its low working capital intensity, limited capex requirements and proceeds from sale of the human pharma business in FY2023. The conservative debt levels have resulted in strong capital structure, reflected in gearing of 0.03 times as on March 31, 2023, and interest coverage of 10.9 times in FY2023. The company's liquidity position is expected to remain strong going forward as well, aided by its cash reserves, absence of long-term debt and limited capex plans over the medium term.

### **Credit challenges**

**Moderate scale of operations; low profit margins** – TTKHL's scale remains moderate, as reflected by its revenues of Rs. 725.1 crore in FY2023 and Rs. 202.1 crore in Q1 FY2024. The margins also remain low at 4.4% for FY2023 and 5.0% for Q1 FY2024, due to the distribution nature of its business in certain segments and limited value addition in other segments. Nevertheless, the company's healthy market share and strong brand equity would continue to support its revenues while benefits from operating leverage as revenues scale up and cost-optimisation measures undertaken would support accruals, going forward.

**Intense competition and need for sustained brand-building efforts** – The company remains exposed to intense competition in most product segments from both organised and unorganised players. Further, in order to maintain its market share and brand equity, continuous sales promotion, advertisement and branding are required, which add to cost. However, the company's ability to pass on cost inflation and maintain its margins in a rangebound manner mitigates the risk to an extent.

### **Liquidity position: Strong**

The company's liquidity is Strong, with unencumbered cash and bank balance of Rs. 863.5 crore as on June 30, 2023, and anticipated healthy cash flow from operations. Also, TTKHL does not have any long-term debt in its books. In relation to these sources of cash, the company has a minimum capex commitment of ~Rs. 5.0-7.0 crore per annum over the medium term, to be funded by internal accruals. Overall, ICRA expects TTKHL to be able to meet its medium-term commitments through internal sources of cash and yet be left with cash/liquid investments surplus.

### **Rating sensitivities**

**Positive factors** – 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 could lead to an upgrade include core ROCE greater than 20% on a sustained basis.

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

### **Environmental and social risks**

**Environmental considerations:** Akin to other FMCG companies, TTKHL remains exposed to the impact of changes in environmental norms with respect to treatment of manufacturing residual discharge/waste. Further, the company will need to adapt to increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions. In addition, there is also a trend towards using organically grown input materials and increasing focus on carbon neutrality. Such developments can potentially increase costs for TTKHL, although it is partly mitigated by the company's adequate pricing power. Accordingly, TTKHL has low exposure to environmental risks.

**Social considerations:** TTKHL has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and service businesses, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem are essential for disruption-free operations. This apart, any quality concerns could impact brand equity. Also, certain product categories could be impacted because of health consciousness. Nevertheless, TTKHL’s overall exposure to social risks remains low to moderate, akin to other Fast-moving consumer goods (FMCG) players.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Fast Moving Consumer Goods (FMCG)</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financials.

## About the company

TTK Healthcare Limited (TTKHL) commenced operations in 1958 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 food products, medical and protective devices divisions. The company is a part of the reputed TT Krishnamachari Group, a conglomerate with varied business interests including 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)

Standalone	FY2022	FY2023
Operating income	599.2	725.1
PAT	41.6	639.7*
OPBDIT/OI	3.8%	4.4%
PAT/OI	6.9%	88.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.2
Total debt/OPBDIT (times)	1.0	0.8
Interest coverage (times)	6.9	10.9

Source: Company, ICRA Research; Note: Amounts in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; \*PAT for FY2023 includes profit from sale of human pharma business to the tune of Rs. 585.9 crore and profit from operations in the human pharma division to the tune of Rs. 9.1 crore till the sale date in FY2023.

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

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				September 04, 2023	July 07, 2022	March 30, 2022	May 10, 2021	April 14, 2020
1 Fund-based facilities – CC	Long-term	32.50	-	[ICRA]A+ rating Watch with Positive Implications	[ICRA]A+%	[ICRA]A+%	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Non-fund-based facilities	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 facilities interchangeable	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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based facilities – CC	NA	NA	NA	32.50	[ICRA]A+; Rating Watch with Positive Implications
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 interchangeable (Sub limits)	NA	NA	NA	(16.00)	[ICRA] A1+

Source: Company

[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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