TT Limited

March 02, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	82.51 (Reduced from 88.76)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	157.85	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**240.36 (Rs. Two Hundred Forty Crore and Thirty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of TT Limited (TTL) continue to remain constrained by its below average financial risk profile characterized by high overall gearing, weak debt coverage indicators and elongated working capital cycle. The ratings also continue to remain constrained by the volatility in the raw material prices and foreign exchange rates resulting in volatile margins, competitive nature of the industry and the current subdued industry scenario.

The ratings, however, continue to derive strength from the experienced promoters, long track record of operations of the company, the well-established TT brand and the changing product mix of the company by focusing more towards better margin products. The ratings take cognizance of the company's asset monetization plans which includes sale of spinning mill in Amreli Gujarat, 1.5 MW wind mill and warehouse in Karol Bagh.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Timely receipt of funds from asset monetization and subsequent reduction in debt levels as envisaged leading to improvement in overall gearing below 2.75x.
- Ability to sustain the total operating income at FY20 levels while improving PBILDT margins beyond 9%

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any delay in realization of funds from asset monetization leading to continued elevated debt levels with overall gearing above 4.00x.
- Deterioration in scale of operations below Rs. 350 crores or PBILDT margins below 7% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile

The company has below average financial risk profile characterized by high overall gearing, weak debt coverage indicators and elongated working capital cycle. The company has a leveraged capital structure as exhibited by high overall gearing of 3.66x as on March 31, 2020 (PY 3.63x) largely on account of the elevated debt levels and low net-worth base of the company. The total operating income decreased from Rs. 526.99 crores as on March 31, 2019 to Rs. 424.87 crores as on March 31, 2020 on account of subdued market conditions during H1FY20 (refers to the period April 01 to September 30) coupled with the effect of coronavirus pandemic on the exports during Q4FY20 (refers to the period January 01 to March 31). The export sales contribute 52% during FY20 (FY19: 53%) of the total operating income of the company. TTL reported losses at the net level of Rs. 1.26 crore in FY20 as against net profit of Rs. 0.16 crores during FY19. Due to moderated profitability and high debt levels, the debt coverage indicators stood moderate with PBILDT interest coverage of 1.11x and Total Debt/PBILDT of 7.40x as on March 31, 2020 (March 31, 2019: 1.33x and 7.03x respectively). The operating cycle of the company elongated from 84 days in FY19 to 101 days in FY20 due to increase in inventory holding period from 53 days in FY19 to 78 days in FY20.

During 9MFY21, TTL reported a loss of Rs. 4.83 crore on a total operating income of Rs. 278.20 crore as against a loss of Rs. 0.52 crore on a total operating income of Rs. 307.31 crore during 9MFY20. Lower operating income was on account of nationwide lockdown imposed by the government of India during the COVID-19 pandemic leading to subdued demand from the customers.

Susceptibility to foreign exchange rate fluctuations and volatility in the raw material prices

The contribution of export sales out of the total income is ~52% (PY: 53%) exposing it to foreign exchange risk. However, the company hedges 90% of its export receivables by entering into forward contracts. The profitability of company depends

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, international prices and government regulations. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Competitive intensity from unorganized and international markets

In the yarn and garment segment, the company faces intense competition from China, Bangladesh and other cheap export-based countries, which sell yarns and garments at lower rates compared to India. Indian apparel exporters face competition from Bangladesh on account of low wages and duty-free access to around various countries including EU nations. Domestic competition has also been growing in the garment segment with the international brands entering India. Moreover, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition and affecting margins.

Indian apparel exports will continue to be guided by development in USA and EU economies. Further, decreasing cost competitiveness of China is likely to give positive impetus to Indian textile exporters. Availability of skilled manpower and raw material like cotton, polyester and viscose puts India in a favourable position vis-à-vis other country.

Key Rating Strengths

Experienced and resourceful promoters with established track record

The promoters of TTL have a long track record of more than three decades. The main promoter, Dr. Rikhab C. Jain, has more than five decades of experience in the textile industry. He has done his MBA from IIM Calcutta and is a fellow member of the Institute of Company Secretaries, UK as well as India. Mr Jain is ably assisted by his son-in-law and Managing Director of TTL Mr. Sanjay Jain and his daughter-in-law Ms Jyoti Jain, Joint MD. Also, promoters have continuously supported the company with the infusion of funds in the form of unsecured loans.

Change in the product-mix by focusing on better margin products

The company is shifting its focus to the garmenting business as the same is a high margin product. Therefore, in order to give boost to the garment business, the company undertook a capex for the setting-up of garment manufacturing facility at Gajroula, Uttar Pradesh and expansion of the existing garmenting facilities at Avinashi, Tamil Nadu. The entire capex was completed by March 2019. During 9MFY21, the company has also signed MoU for the sale of spinning assets in Amreli, Gujarat for a consideration of Rs. 65 crores to focus more on the fabric and garment segment having better margins. The proceeds from asset monetization shall be utilized by the company to reduce the debt levels through prepayment of the rupee term loans and inter-corporate deposits.

Integrated business operations with established brand name

Over the years, TTL has established itself as an integrated textile manufacturer with its presence in the entire cotton chain, including yarn, knitted fabrics and garments. The prominent product segments are yarn (including both manufactured and traded yarn) (52.95% of gross sales during FY20; PY: 57.86%), followed by garments (30.78% of gross sales during FY20; PY: 23.96%) and fabric (8.06% of gross sales during FY20; PY: 10.25%). TTL has a network of franchise units for the manufacture of yarn and innerwear, knitwear garments at Tirupur, Kolkata, Delhi, Varanasi, Saharanpur, Kanpur and Ludhiana. The production from these franchise units are marketed under the brand name 'TT'.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to the repayment obligations, high utilization of bank limits and modest cash balance. The average utilization levels of working capital of Rs. 142.80 crore stood at 97% for the past twelve months ended January 2021. The liquidity of the company is supported by regular infusion of funds from promoters as well as fixed asset sale proceeds. The cash and bank balance of the company stood at ~Rs. 5.00 crore as on February 15, 2021. To tide over the uncertainty attached to the COVID-19 outbreak, the company has approached lenders for approval of moratorium for its term loans and working capital facilities, which is in line with the COVID-19 Regulatory Package announced by the Reserve Bank of India on March 27, 2020. The same had been approved by the lenders.

Analytical approach: Standalone

Applicable Criteria

Liquidity Analysis of Non-Financial sector entities
CARE's methodology for manufacturing companies
CARE's methodology for cotton textile
Financial ratios – Non-Financial Sector
Criteria on assigning 'outlook' and 'credit watch'
CARE's policy on Default recognition
Criteria for Short-term Instruments

About the Company

TT Limited (formerly Tirupati Texknit Ltd; TTL) was incorporated in 1978, as a public limited company. The company is promoted by Mr. Rikhab Chand Jain, an IIM graduate, is aged 72 years and has more than five decades of experience in textile industry. Mr Jain is ably assisted by his son-in-law and Managing Director of TTL Mr. Sanjay Jain, also an IIM graduate, and his granddaughter Ms Jyoti Jain, Joint MD. The company exports in more than 65 countries across the globe, where, the exports are contributing around 52% to its total sales in FY20 (PY: 53%). As on December 31, 2020, the company has an installed capacity of 94,28,580 kg of yarn (PY: 1,79,22,240 kg) and 30,40,000 kg of knitted fabrics (PY: 30,40,000 kg).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	526.99	424.87
PBILDT	39.42	36.83
PAT	0.16	-1.26
Overall gearing (times)	3.63	3.66
Interest coverage (times)	1.33	1.11

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Short Term	-	-	-	146.85	CARE A4
Non-fund-based-Short Term	-	-	-	11.00	CARE A4
Term Loan-Long Term	-	-	March 2028	32.51	CARE BB; Stable
Fund-based-Long Term	-	-	-	50.00	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Short Term	ST	146.85	CARE A4	-	1)CARE A4 (11-Mar-20)	1)CARE A4 (19-Feb-19)	1)CARE A4 (15-Mar-18)
2.	Non-fund-based-Short Term	ST	11.00	CARE A4	-	1)CARE A4 (11-Mar-20)	1)CARE A4 (19-Feb-19)	1)CARE A4 (15-Mar-18)
3.	Term Loan-Long Term	LT	32.51	CARE BB; Stable	-	1)CARE BB; Stable (11-Mar-20)	1)CARE BB; Stable (19-Feb-19)	1)CARE BB; Stable (15-Mar-18)
4.	Fund-based-Long Term	LT	50.00	CARE BB; Stable	-	1)CARE BB; Stable (11-Mar-20)	1)CARE BB; Stable (19-Feb-19)	1)CARE BB; Stable (15-Mar-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Fund-based-Short Term	Simple
3.	Non-fund-based-Short Term	Simple
4.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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