CareEdge RATINGS

TT Limited

December 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	94.63 (Enhanced from 82.51)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short Term Bank Facilities	30.00 (Reduced from 157.85)	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Bank Facilities	**124.63 (Rs. One Hundred Twenty-Four Crore and Sixty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of TT Limited (TTL) factors in the successful and timely completion of monetisation of its assets in Gujarat and the subsequent reduction in debt levels. The company has sold its spinning mill, ginning mill and windmill of 2.1 MW for a total consideration of Rs. 81.06 crore. The transfer of the assets has been completed during October 2021 and the cash proceeds were utilised towards reduction in the debt levels. The revision further factors in CARE's expectation of a sustained and improved profitability with a PBILDT margin of above 9% going forward on account of increased focus of the company on higher margin products – fabric and garments segment. The ratings continue to derive strength from the experienced promoters, long track record of operations of the company and well-established TT brand.

The ratings, however, continue to remain constrained by below average financial risk profile characterized by improving but 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, and competitive nature of the industry.

Rating Sensitivities

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

- Reduction in debt levels leading to improvement in overall gearing below 1.75x on a sustained basis
- Increase in total operating income above Rs. 450 crores with PBILDT margins beyond 11% on a sustained basis
- Efficient management of working capital requirement and resultant improvement in liquidity position of the company.

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

- Deterioration in scale of operations below Rs. 350 crores or PBILDT margins below 7% on a sustained basis.
- Significant increase in working capital requirements resulting in deterioration in liquidity profile of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Below average financial risk profile

The capital structure of the company continues to remain leveraged as overall gearing stood at 3.73x (PY: 3.66x) as on March 31, 2021 largely on account of the elevated debt levels and low net-worth base of the company. However, as on June 30, 2021 the total debt of the company has reduced to Rs. 238.19 crore as against Rs. 254.08 crores as on March 31, 2021. The debt has been further reduced to Rs. 171.26 crores as on December 01, 2021 from the proceeds received from monetisation of assets.

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

The contribution of export sales out of the total income is ~53% (PY: 52%) 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 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 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

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

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
Successful monetisation of assets
The company aims to focus more at the fabric and garment segment manufacturing due to higher margins from this segment in comparison to yarn. The company will continue in the yarn segment through trading. TTL has successfully monetised its assets and utilised the proceeds towards reducing debt. The company has sold its entire assets in Gujarat comprising of spinning mill for a consideration of Rs. 65.11 crore, ginning mill for Rs. 5.15 crore and windmill for Rs. 10.80 crore. As on November 15, 2021 the company has received Rs. 73.18 crore. The proceeds have been utilised to repay outstanding loans of Rs. 13.68 crore against the sold assets. Further, TTL has repaid Rs. 19.50 crore against the unsecured loans and ICDs and rest Rs. 40 crore has been utilised to reduce working capital limits.

Moderate operational performance
During FY21, the total operating income (TOI) of the company moderated by 7% to Rs. 394.29 crore from Rs. 424.87 crore. The moderation was mainly attributable to the COVID restrictions and subdued demand scenario in the domestic market as well as around the globe. However, the PBILDT margins of the company improved from 8.67% in FY20 to 10.19% in FY21. The improved margins were largely due to increase in sales realization in both fabric and yarn segment. Further owing to the revaluation of assets held for sale the company had booked an exceptional loss of Rs. 26.09 crores leading to losses at the net level.

Since the transfer of assets held for sale was done in October 2021, TTL was manufacturing yarn in H1FY22 enabling the company to take advantage of the upcycle in the yarn segment. The same is evident from a PBILDT margin of 12.30% recorded by the company in H1FY22 on a TOI of Rs. 201.67 crores.

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 (49.73% of gross sales during FY21; PY: 52.95%), followed by garments (29.14% of gross sales during FY21; PY: 30.78%) and fabric (7.50% of gross sales during FY21; PY: 8.06%). 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'.

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.

Liquidity: Stretched
Liquidity is marked by tightly matched cash accruals to the repayment obligations. Comfort on liquidity is derived from continued support from promoters and fixed assets sales proceeds. The company has a repayment obligation of Rs. 20.85 crore for term loans during FY22 as against the projected cash accruals of around Rs. 18 crore and sale proceeds of Rs. ~81 crore. As on September 30, 2021 the company has already paid close to Rs.18 crore out of the total repayments of Rs. 20.85 crores for FY22. Further, the company also projects to repay unsecured loan from promoters and ICDs for a total amount of Rs. 69.15 crore. As on December 01, 2021 the company has free cash and bank balance of Rs. 3.30 crore and unutilized working capital limits of ~Rs. 34 crore. The operations of the company are working capital intensive owing to high inventory holding period of 87 days in FY21 (PY: 78 days). The high working capital requirements are met by bank facilities leading to an average utilization levels of ~84% for the past twelve months ended October 2021.

Analytical approach: Standalone

Applicable Criteria
Rating methodology - Cotton Textile
Financial Ratios – Non financial Sector
Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
CARE's criteria on Short Term Instruments
Rating methodology - Manufacturing Companies

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 53% to its total sales in FY23 (PY: 52%). As on June 30, 2021, 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)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	424.87	394.29	201.67
PBILDT	36.83	40.18	24.81
PAT	-1.26	-7.60	9.37
Overall gearing (times)	3.66	3.73	3.07
Interest coverage (times)	1.11	1.42	1.82

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Short Term		-	-	-	25.00	CARE A4+
Non-fund-based-Short Term		-	-	-	5.00	CARE A4+
Term Loan-Long Term		-	-	September 2022	44.63	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Short Term	ST	25.00	CARE A4+	-	1)CARE A4 (02-Mar-21)	1)CARE A4 (11-Mar-20)	1)CARE A4 (19-Feb-19)
2	Non-fund-based-Short Term	ST	5.00	CARE A4+	-	1)CARE A4 (02-Mar-21)	1)CARE A4 (11-Mar-20)	1)CARE A4 (19-Feb-19)
3	Term Loan-Long Term	LT	44.63	CARE BB+; Stable	-	1)CARE BB; Stable (02-Mar-21)	1)CARE BB; Stable (11-Mar-20)	1)CARE BB; Stable (19-Feb-19)
4	Fund-based-Long Term	LT	50.00	CARE BB+; Stable	-	1)CARE BB; Stable (02-Mar-21)	1)CARE BB; Stable (11-Mar-20)	1)CARE BB; Stable (19-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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@careedge.in for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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