

Turtle Limited

May 17, 2019

Ratings

| Instrument / Facility | Amount (Rs. crore) | Ratings | Rating Action |
|--|---|---|---|
| Long Term Fund Based Facilities- Cash Credit | 45.00 (reduced from Rs.58.80 crore) | IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook) | Revised from IVR BBB+ with Positive Outlook |
| Short Term Fund Based Facilities- Standby Line of Credit | 3.00 | IVR A3+ (IVR A Three Plus) | Revised from IVR A2 |
| Short Term Non Fund Based Facilities- Letter of Credit | 3.00 | IVR A3+ (IVR Three Plus) | Revised from IVR A2 |
| Short Term Non Fund Based Facilities- Credit Exposure Limit | 0.20 | IVR A3+ (IVR A Three Plus) | Revised from IVR A2 |
| Total | 51.20 | | |

Details of Facilities are in Annexure I

Detailed Rationale

The revision in the aforesaid ratings assigned to the bank facilities of Turtle Limited (TL) is on account of expected moderation in its operating performance in FY19 and consequent deterioration in overall financial risk profile. However, the ratings continue to draw strength from the long-standing experience of the promoters, particularly in the fashion retail industry with their demonstrated funding support by infusing unsecured loans on regular intervals, its long track record of operations, healthy brand penetration along-with diversified presence across the country with extensive distribution network & established arrangement with its suppliers. The ratings continued to be tempered by high competition in branded men's apparel segment, high working capital intensity of its operations leading to moderate gearing level and debt protection parameters. Improvement in sales, trend in profitability, gearing level and efficient management of working capital with focus on rationalization of inventory are the key rating sensitivities.

The revision in outlook from positive to stable factors in muted operating performance in 9MFY19 after a healthy growth achieved in FY18 indicating a contraction in total revenue.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record



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TL commenced operation in 1994 and accordingly has a long track record of operation of over two decades.

Experienced promoters with their demonstrated funding support

The promoters, Mr. Sanjay Jhunhunwala and Mr. Amit Ladsaria (nephew of Mr. Jhunhunwala) are well experienced in the textile industry. They support the business of TL by arranging funds in the form of interest bearing unsecured loans (Rs.49.05 crore outstanding as on March 31, 2018 though reduced from Rs.64.45 crore as on March 31, 2017) and have demonstrated positive commitments since inception. Further, FLFL Lifestyle Brands Limited has 26% shareholding (acquired in 2007) in TL.

Healthy brand penetration

TL has developed a nationwide strong brand name for its flagship brand 'Turtle' in the mid-premium men's apparel segment targeted towards the middle-income group mainly within the men's formal/casual wear category. It had launched another brand namely "London Bridge." in 2007 to deepen its presence and to cater the market segment being untapped by its flagship brand. However, since FY19 the company has decided to discontinue "London Bridge" amidst its relatively lower margin and weak consumer off-take.

Diversified presence across the country with extensive distribution Network

TL has presence in over 400 towns and cities across the country and operates with its 93 (as on December 31, 2018, reduced from 110 in FY18) Exclusive Brand Outlets' (EBO) comprising 38 company owned stores, 45 franchise operated owned stores, 10 franchise owned and operated stores, 435 large format stores (LFS) and 1198 Multi Brand Outlets' (MBO). The stores are spread across Pan India with major presence in West Bengal, Orissa, Bihar, Assam and Jharkhand. Further, TL also has a strong distribution network of about 11 agents and 1442 dealers/retailers across 26 states. Besides the company has its own exclusive online platform to boost its online presence. During FY19, the company closed 17 (mostly in Q4FY19) loss making EBO's to rationalize its profitability under its business reorganisation strategy initiatives.

Established arrangement with suppliers

TL procures its raw materials from reputed players like, Arvind Limited, Raymond Luxury Cotton Ltd., Aditya Birla Nuvo Ltd., etc., or from large wholesalers as per the specific requirements of the company.

Key Rating Weaknesses

Healthy growth in FY18 though moderation expected in FY19

The company has achieved a healthy y-o-y growth of about 20% to Rs.201.03 crore in FY18 from Rs.168.04 crore in FY17 driven by higher sales volume with healthy improvement in profit levels and margins. In 9MFY19, the company reported a PBT of Rs.0.22 crore (Rs.4.48 crore in 9MFY18) on total operating income of Rs.150.15 crore (Rs.146.22 crore in 9MFY18). However, the overall revenue in FY19 is expected to be impacted due to discontinuation of “London Bridge” brand coupled with closure of 17 non-performing stores during the year (mostly in Q4FY19). Additionally, the profitability is also expected to be impacted due to aggressive inventory clearance initiatives to optimize its inventory maintenance mechanism and reduce the inventory holding cost going forward coupled with adoption of extensive brand promotion of “Turtle” brand and expected lower absorption of fixed overheads attributable to expected lower sales.

Moderate gearing level and debt protection parameters

The capital structure of the company continued to remain moderate with the overall gearing ratio at 1.63x as on March 31, 2018 considering the sub-ordinated debt (interest bearing) of Rs.49.05 crore as neither debt nor equity. The interest coverage ratio continued to remain moderate though improved from 1.44x in FY17 to 1.67x in FY18. However, Total debt to GCA has been on the higher side.

High working capital intensity

TL’s operations are working capital intensive, marked by its high operating cycle of 203-247 days during FY17-18. However, the average working capital utilization remained moderate at about 80% during the past 12 months ended March, 2019. High operating cycle is mainly attributable to large inventory holding requirements for raw materials (mainly due to variety of fabrics, yarns to support the changing consumer preferences) and finished products to support distributor/ dealer channel and to maintain stock of variety of products in own outlets. Further, to support the sales growth in highly competitive market, the company has to extend higher credit terms to its customers. However, from FY19 onwards, the company has identified various mechanisms to bring down the level of inventory and debtors on an overall basis, to optimise its working capital cycle going forward.

High competition in branded men’s apparel segment

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Indian men's apparel industry is highly competitive due to presence of many established national and international brands and non-branded players. Intense competition reduces the pricing power of the industry players including TL and restricts its profitability. However, the products of the company are priced relatively lower as compared to the branded apparels marketed by the foreign companies.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

Liquidity

Liquidity position of the company remained moderate marked by its comfortable current ratio and moderate quick ratio at 1.46 times and 0.77 times respectively as on March 31, 2018. The company has sizable debt repayment in near to medium term which would keep the liquidity position moderate. Rationalization of inventory holding, speedy realization of debtors and achievement of envisaged sales would be the key factor influencing the overall liquidity position going forward.

About the Company

Headquartered in Howrah (West Bengal), TL (initially incorporated as a private limited company on August, 1992) was promoted by Kolkata based Mr. Sanjay Jhunjhunwala and Mr. Amit Ladsaria. TL is engaged in designing and manufacturing of ready-made cotton menswear with its two brands — "Turtle" and "London Bridge". However, since FY19 the company has decided to discontinue "London Bridge" amidst its relatively lower margin and weak consumer off-take. The company has two manufacturing facilities for fabric cutting, stitching, sewing, ironing and packaging and two warehouses for the storage of raw fabric and finished goods in Howrah, West Bengal.

Financials (Standalone):

| | (Rs. crore) | |
|------------------------------------|--------------------|-------------------|
| For the year ended* / As On | 31-03-2017 | 31-03-2018 |
| | Audited | Audited |
| Total Operating Income | 168.04 | 201.03 |
| EBITDA | 18.60 | 24.61 |



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| For the year ended* / As On | 31-03-2017 | 31-03-2018 |
|---|------------|------------|
| PAT | 2.74 | 5.71 |
| Total Debt (Excl. Sub loans) | 57.94 | 74.92 |
| Tangible Net worth | 40.13 | 45.97 |
| EBITDA Margin (%) | 11.07 | 12.24 |
| PAT Margin (%) | 1.62 | 2.83 |
| Overall Gearing Ratio (x) (Excl. Sub loans) | 1.44 | 1.63 |

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

The Company was moved into Issuer Not Cooperating category by Ind-Ra vide their press release dated February 28, 2019 on account of failure of the borrower to submit information as required by the agency.

The Company was moved into Issuer Not Cooperating category by CARE vide their press release dated March 19, 2018 on account of failure of the borrower to submit information as required by the agency.

Any other information: Nil

Rating History for last three years with Infomerics:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|---------|---|-------------------------------|--------------------------------|--------------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1. | Long Term Fund Based Limits – Cash Credit | Long Term | 45.00 | IVR BBB / Stable Outlook | - | IVR BBB+/Positive Outlook | - |
| 2. | Short Term Fund Based Limits – SLC | Short Term | 3.00 | IVR A3+ | - | IVR A2 | - |
| 3. | Short Term Non Fund Based Limits-LC | Short Term | 3.00 | IVR A3+ | - | IVR A2 | - |
| 4. | Short Term Non Fund Based Limits-CEL | Short Term | 0.20 | IVR A3+ | - | IVR A2 | - |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities –Cash Credit | - | - | - | 45.00 | IVR BBB / Stable Outlook |
| Short Term Bank Facilities – SLC | - | - | - | 3.00 | IVR A3+ |
| Short Term Bank Facilities – LC | - | - | - | 3.00 | IVR A3+ |
| Short Term Bank Facilities – CEL | - | - | - | 0.20 | IVR A3+ |