Press Release

Turtle Limited

February 07, 2018

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit (including proposed limit)	58.80	IVR BBB + / Positive Outlook (IVR Triple B Plus with Positive Outlook)	Assigned
Short Term Fund Based Facilities- Standby Line of Credit	3.00	IVR A2 (IVR A Two)	Assigned
Short Term Non Fund Based Facilities- Letter of Credit	3.00	IVR A2 (IVR A Two)	Assigned
Short Term Non Fund Based Facilities- Credit Exposure Limit	0.20	IVR A2 (IVR A Two)	Assigned
Total	**65.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Turtle Limited (TL) derive comfort from its long track record of operations, experienced promoters, particularly in fashion retail industry, with their demonstrated funding support by infusing unsecured loans on regular intervals, healthy brand penetration along-with diversified presence across the country with extensive distribution network & established arrangement with its suppliers and growth in operations over the last one decade. The ratings are further supported by the modest level of improvement achieved in revenue & profitability by TL in 9MFY18 (9MFY18, refers to April 01 to December 31), although there was a moderation in profitability in FY17 (FY refers to the period, April 1 to March 31). However, the ratings are constrained by high competition in branded men's apparel segment, high working capital intensity of the business and moderate gearing levels. The outlook is positive due to modest improvement in revenue and profit level during 9MFY18.

List of Key Rating Drivers

- Long track record of operations.
- Experienced promoters with their demonstrated funding support.
- Healthy brand penetration.
- Diversified presence across the country with extensive distribution network.
- Established arrangement with raw material suppliers.
- Growth in operations over a decade.
- Modest level of improvement in revenue & profit levels in 9MFY18, although there was a moderation in profitability in FY17
- High working capital intensity.
- Moderate gearing level
- High competition in branded men's apparel segment.

Detailed Description of Key Rating Drivers

Long track record

TL commenced operation in 1994 and accordingly has a long track record of operation of over two decades. Over the years, the company has expanded its operations significantly and positioned itself as a formidable player in the branded men's apparel retail segment.

Experienced promoters with their demonstrated funding support

The promoters, Shri Sanjay Jhunjhunwala and Shri Amit Ladsaria (nephew of Shri Jhunjhunwala) are well experienced in the textile industry. They support the business of TL by infusing funds in the form of interest bearing unsecured loans (Rs.64.45 crore outstanding as on March 31, 2017) and have demonstrated positive commitments since inception. Further, FLFL Lifestyle Brands Limited has 26% shareholding 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. Both of its brands are well admired and known as affordable ones in the men's apparel segment.

Diversified presence across the country with extensive distribution Network

TL has presence in over 400 towns and cities across the country. Currently, it operates with its Exclusive Brand Outlets' (EBO) comprising 28 owned stores, 24 leased stores, 51 franchise agreement, 414 large format stores and 1028 Multi Brand Outlets' (MBO) as on September 30, 2017 spread across pan India with major presence in West Bengal. Further, TL also has a strong distribution network of about 11 agents and 1442 dealers/ retailers across 26 states. Moreover, TL is also expanding into international markets like Dubai, Saudi Arabia, etc. Its top five clients accounted for only ~5% of the company's total operating income in FY17 (~5% in FY16) indicating diversified customer base. .

Established arrangement with suppliers

The company has established supply arrangements with its vendors and 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. The company is also actively involved in the designing and fabric selection at the negotiated rates enabling the company to have a control over the quality of fabric. Furthermore, on the back of its long and established business relationship, the company manages to avail credit of about three to four months from its suppliers (mainly from wholesalers) which add to its working capital flexibility.

Growth in operations over a decade

TL is mainly operates in the highly competitive domestic menswear market. Despite challenging operating environment, the company has achieved satisfactory growth in operation over the past decade (except in FY16), driven by higher brand visibility and expansion of outreach during the aforesaid period. The total operating income dampened a bit (~ 3.5%) in FY16 mainly due to consolidation of some non-profitable stores on pan-India basis impacting the overall sales volume. TL registered a steady growth of about 10% in FY17 mainly driven by increase in volume sales, attributable to increased brand acceptance

and footsteps in new geographies. During 9MFY18 as well, TL achieved a significant growth in its total operating income.

Modest level of improvement in revenue & profit levels in 9MFY18, although there was a moderation in profitability in FY17

The company is still in its growth phase and is more focused to increase its brand visibility and acceptance among masses through extensive brand promotion and discounts. Moreover, to ease of the effect of demonitisation in November 2016, the company had to extend high discount/higher credit period to maintain its growth. Further, during FY17, there was an increase in processing and conversion charges due to higher increase in job work to ensure the availability of its products. All these had moderated the EBIDTA & PBT levels of FY17 vis-à-vis FY16 and the consequential margins. However, during 9MFY18, the company has turned around substantially with modest level of improvement in total operating income and PBT, driven by higher disposable income, growing brand awareness and men's increasing preferences for fashion.

High working capital intensity

TL's operations are working capital intensive, marked by its high operating cycle of 207-247 days during FY15-FY7. High operating cycle is 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. Moreover, around 40% of its revenue is generated from the large format retail stores and multi brand outlets where payment collection is slow and are only collected upon sales. Accordingly, the company has to provide about four to five months credit period to the large retailers translating into higher collection period.

Moderate gearing levels

The capital structure of the company remained moderate with the overall gearing ratio at 1.42x as on March 31, 2017 considering the interest bearing sub-ordinated debt of Rs.52.98 crore as neither debt nor equity. The debt profile of the company only majorly comprised working capital borrowings due to its high working capital requirements, besides car loans

and non-subordinated unsecured loans from the promoters/known body corporates. However, Total debt to GCA has been on the higher side.

High competition in branded men's apparel segment

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 & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Headquartered in Howrah (West Bengal), TL (initially incorporated as a private limited company on August, 1992) was promoted by Kolkata based Shri Sanjay Jhunjhunwala and Shri Amit Ladsaria. TL is engaged is designing and manufacturing of ready-made cotton menswear with its two brands — "Turtle" and "London Bridge". 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	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	157.29	172.32
EBITDA	21.86	18.81
PAT	4.88	2.64
Total Debt	51.15	57.94
Tangible Net worth	38.28	40.92
EBITDA Margin (%)	13.90	10.92
PAT Margin (%)	3.10	1.48
Overall Gearing Ratio (x)	1.34	1.42

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: India Ratings and Research has migrated TL ratings to the non-cooperating category vide Press Release dated November 09, 2017 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:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Fund Based Limits- Cash Credit	Long Term	58.80	IVR BBB + / Positive Outlook (IVR Triple B Plus with Positive Outlook)			
2.	Based Facilities- Standby Line of Credit	Short Term	3.00	IVR A2 (IVR A Two)	--	--	--
3.	Non Fund Based Limits- Letter of Credit	Short Term	3.00	IVR A2 (IVR A Two)			
4.	Non Fund Based Facilities- Credit Exposure Limit	Short Term	0.20	IVR A2 (IVR A Two)			

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	58.80	IVR BBB + / Positive Outlook (IVR Triple B Plus with Positive Outlook)
Short Term Fund Based Facilities- Standby Line of Credit	--	--	--	3.00	IVR A2 (IVR A Two)
Short Term Non Fund Based Limits- Letter of Credit	--	--	--	3.00	IVR A2 (IVR A Two)
Non Fund Based Facilities- Credit Exposure Limit	--	--	--	0.20	IVR A2 (IVR A Two)