Press Release

Turtle Limited

August 07, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Cash Credit	45.00	IVR BBB- (Credit Watch with Developing Implications) (IVR Triple B Minus under Credit watch with developing implications)	Revised from IVR BBB/Stable (Triple B with Stable outlook)
Short Term Fund Based Facilities- Standby Line of Credit	7.80 (enhanced from 3.00)	IVR A3 (Credit Watch with Developing Implications) (IVR A Three under Credit watch with developing implications)	Revised from IVR A3+ (A Three Plus)
Short Term Non Fund Based Facilities- Letter of Credit	3.00	IVR A3 (Credit Watch with Developing Implications) (IVR A Three under Credit watch with developing implications)	Revised from IVR A3+ (A Three Plus)
Short Term Non Fund Based Facilities- Credit Exposure Limit	0.20	IVR A3 (Credit Watch with Developing Implications) (IVR A Three under Credit watch with developing implications)	Revised from IVR A3+ (A Three Plus)
Total	**56.00 (Rupee fifty six crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the aforesaid ratings assigned to the bank facilities of Turtle Limited (TL) is on account of moderation in its operating performance in FY19 and consequent deterioration in overall financial risk profile. Further, the rating downgrade also takes into account subdued performance of the company in 11MFY20 and likelihood of a steep decline in the top line of the company in FY2021 compared to the previous fiscal owing to a sharp drop in sales volume because of the Covid-19 pandemic. Meanwhile, 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. These rating strengths continued to be tempered by high competition in branded men's apparel segment with inherent risk of design obsolescence and consequent increase in slow-moving inventory leading to high working capital intensity of its operations. Infomerics expects the company's operating as well as financial performance to remain under pressure because of the weak macro-economic environment translating into lower spending and a potential change in the consumer behaviour due to the ongoing pandemic in the near term, at least. The demand recovery is likely to be very small and gradual. The ratings remain under credit watch with developing implications owing to uncertainty in the demand scenario and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities

Upward Factor:

- Substantial and sustained growth in operating income and profitability leading to improvement in cash accruals and debt protection metrics
- Sustenance of the capital structure with improvement in the overall gearing ratio
- Effective working capital management leading to improvement in liquidity

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin
- Any stretch in the working capital cycle driven by stretch in inventory and receivables affecting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x and interest coverage to below 1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **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, Mr. Sanjay Jhunjhunwala and Mr. Amit Ladsaria (nephew of Mr. Jhunjhunwala) 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.45.57crore outstanding as on March 31, 2019) and have demonstrated positive commitments since inception. Further, FLFL Lifestyle Brands Limited has 26% shareholding (acquired in 2007) in TL. Currently, Mr. Jhunjhunwala (Managing Director) is at the helm of affairs of the company and Mr. Ladsaria looks after the marketing strategies of the company. The board is well supported by a team of experienced professionals.

- **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 113 (as on December 31, 2019, increased from 110 in FY18) Exclusive Brand Outlets’ (EBO) comprising 40 company owned stores, 63 franchise operated owned stores,10 franchise owned and operated stores, 373 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, UP 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.

- **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. The company has established supply arrangements with its vendors. The company is also actively involved in the designing and fabric selection at the negotiated rates which enables 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 four months from its suppliers (mainly from wholesalers) which add to the working capital flexibility.

Key Rating Weaknesses

- **Decline in Total operating Income and profit margin**

  The total operating income of TL has declined in FY19 by ~11% to Rs.178.41 crore from Rs.201.03 crore in FY18 due to discontinuation of “London Bridge” brand coupled with closure of 17 non-performing stores during the year (mostly in Q4FY19). The EBITDA margin and the PAT margin declined from 12.24% and 2.83% respectively in FY18 to 6.09% and -3.00% respectively in FY19. The profitability is impacted due to aggressive inventory clearance initiatives to optimize its inventory maintenance mechanism and reduce the inventory holding cost going forward coupled withadoption of extensive brand promotion of “Turtle” brand and lower absorption of fixed overheads. As per 11MFY20 (provisional), TL has achieved turnover of Rs.170.03 crore with EBITDA margin of 9.06% and PAT margin of 0.60%. However, Infomerics expects that the company is likely to incur losses at the net level in FY2021 despite several cost-saving measures adopted.

- **Stretched debt protection parameters**

  The capital structure of the company deteriorated marked by the overall gearing ratio at 1.00xas on March 31,2019 considering the subordinated debtof Rs.45.57croreasquasi equity and excluding it from total debt.The interest coverage ratio deteriorated and stretched to 0.66x in FY19 from 1.67x in FY18 due to decline in EBITDA level and higher interest expenses. However, the promoters are infusing funds in the form of unsecured loan as and when required to serve its interest and debt obligation.However, Total debt to GCA turned negative in FY19 due to loss incurred by the company during the year. As per provisional 11MFY20 numbers, overall gearing stands at 0.85x and interest coverage at 1.24x.

- **High working capital intensity**

  TL’s operations are working capital intensive, marked by its high operating cycle of 203-247 days during FY17-19. However, the average working capital utilization remained moderate at about ~87% during the past 12 months ended May, 2020.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, ~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 five to sixmonths' credit period to the large retailers translating into higher collection period.

- **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.

- **Inherent risk of design obsolescence and consequent increase in slow-moving inventory**

  Fashion apparel segment is prone to risk of design obsolesce pertaining to fast changing consumer preferences and continuous evolvement of new designs which may translated into slow inventory movement or inventory write off. Further, fashion retailers and brands are forever contending with the very volatile issue of seasonality – having to ramp up inventories and then deplete them in a time-sensitive manner. To mitigate the same, maintaining freshness in product profile (in terms of design, colour, styling etc.), stock visibility, inventory intelligence, and operational agility to adopt quick changes in a timely manner are main challenges. However, TL has not faced incidence of inventory write off in the past which is matter of comfort.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

Liquidity position of the company is expected to remain stretched on account high working capital intensity of its operations, which in turn will restrict its financial flexibility to a large extent. Further, as the company's business is expected to decline in the near term, efficient management of working capital requirement would remain crucial, 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 is 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	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	201.03	178.41
EBITDA	24.61	10.87
PAT	5.71	-5.37
Total Debt*	74.92	86.00
Tangible Net worth*	95.46	86.22
EBITDA Margin (%)	12.24	6.09
PAT Margin (%)	2.83	-3.00
Overall Gearing Ratio (x)*	0.78	1.00

**Excluding subordinated USL from total debt and considering it as quasi equity*
**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	45.00	IVR BBB- (Credit Watch with Developing Implications)	IVR BBB / Stable Outlook (May 17,2019)	-	IVR BBB+/Positive Outlook (Feb 07,2018)
2.	Standby Line of Credit (SLC)	Short Term	7.80	IVR A3 (Credit Watch with Developing Implications)	IVR A3+ (May 17,2019)	-	IVR A2 (Feb 07,2018)
3.	Letter of Credit (LC)	Short Term	3.00	IVR A3 (Credit Watch with Developing Implications)	IVR A3+ (May 17,2019)	-	IVR A2 (Feb 07,2018)
4.	Credit Exposure Limit (CEL)	Short Term	0.20	IVR A3 (Credit Watch with Developing Implications)	IVR A3+ (May 17,2019)		IVR A2 (Feb 07,2018)

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 Bank Facilities –Cash Credit	-	-	-	45.00	IVR BBB - (Credit Watch with Developing Implications)
Short Term Bank Facilities – SLC	-	-	-	7.80	IVR A3 (Credit Watch with Developing Implications)
Short Term Bank Facilities – LC	-	-	-	3.00	IVR A3 (Credit Watch with Developing Implications)
Short Term Bank Facilities – CEL	-	-	-	0.20	IVR A3 (Credit Watch with Developing Implications)