

Press Release

Tirupati Foam Limited

01 November, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 44.00 Cr
Long Term Rating	SMERA BB+/Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating to **'SMERA BB+' (read as SMERA double B plus)** and short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 44.00 crore bank facilities of Tirupati Foam Limited (TFL). The outlook is **'Stable'**.

TFL is an Ahmedabad-based company incorporated in 1986 by Mr. Venibhai Bhudarji Purohit, Mr. Manharlal Amrutlal Mehta and Mr. Mukeshkumar Babulal Shah. The company is engaged in the manufacturing of foam mattresses, quilts, pillows, cushions and sleeping bags at its two manufacturing plants at Ahmedabad. The capacity stands at 6000 MTPA and 3000 MTPA respectively. The products are sold under the 'Sweet Dream' brand name. The day-to-day operations are led by Directors, Mr. Roshan P. Sanghavi, Mr. Satish A. Mehta and Mr. Deepak T. Mehta. TFL procures raw material i.e. polycol and cloth from the domestic and overseas markets - Singapore, Japan and Korea.

List of key rating drivers and their detailed description

Strengths:

Long track of operations and experienced management

The company has been in the aforementioned business since 1986 and has over the years expanded from being an industrial foam manufacturer to introducing its own 'Sweet Dream' brand of foam mattresses. The Directors, Mr. Roshan P. Sanghavi, Mr. Satish A. Mehta and Mr. Deepak T. Mehta have more than two decades of experience in the PU foam industry. Their established presence has helped the company maintain long standing relations with customers and suppliers.

Moderate financial risk profile

The tangible network of the company stood at Rs. 20.44 crore as on 31 March, 2017 as against Rs. 18.73 crore in the previous year. The gearing stood at 1.68 times as on 31 March, 2017 as against 1.73 times in the previous year. The interest coverage ratio (ICR) stood at 2.18 times in FY2017 compared to 1.96 times in the previous year mainly on account of decline in interest cost in FY2017. The debt service coverage ratio (DSCR) stood at 1.16 times for FY2017 as against 1.17 times in the previous year. The total liabilities to tangible network (TOL/TNW) stood at 2.38 times as on 31 March, 2017 as against 2.19 times in the previous year. The Net cash accruals to total debt (NCA/TD) stood at 0.11 times in FY2017 as against 0.09 times in the previous year. SMERA expects the company to maintain its financial risk profile going forward in the absence of major debt funded capex plan and healthy network.

Pan India distribution

TFL has a pan India presence with over 40 distributors across the country. The manufacturing facilities are located at Ahmedabad and Noida with capacity of 6000 MTPA and 3000 MTPA each.

Weaknesses**Declining revenue trend**

TFL reported decline in operating income to Rs. 72.20 crore in FY2017 from Rs. 77.12 crore in the previous year. The sales volume declined mainly due to intense competition and demonetisation effect in FY2017. However, as informed by the management, TFL reported improvement in sales volume as the company reported operating income of Rs. 54.00 crore for the period April, 2017 to September, 2017 as against Rs. 28.17 crore during the corresponding period in the previous year.

Working capital intensive operations

The operations are working capital intensive evident from the high gross current asset days (GCA) of 230 in FY2017 as against 172 days in the previous year. The increase in GCA days is due to stretched inventory which stood at 89 days for FY2017 as against 41 days in the previous year. The raw material and work-in-process inventory increased in FY2017 over the previous year. Further, the debtor days stood at 110 for FY2017 as against 113 days in FY2016.

Also, the average cash credit limit utilisation stood at 87 percent for the last six months ended 30th September, 2017. However, since TFL operates through a distribution network of more than 20 sales offices across India, debtor days of ~120 days are a general trend.

Intense competition

TFL faces intense competition from other established mattress manufacturers such as Sheela Foam Limited (Sleepwell), Kurlon Enterprise Limited and Duroflex Private Limited. Further, the company faces competition from unorganised players as well in the industry.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-deafault.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that TFL will continue to maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company generates larger than expected cash flows while scaling up operations and maintaining profitability margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected capacity utilisation leading to declining revenues and profit margins.

About the Rated Entity –Key Financials

For FY2016-17, TFL reported profit after tax (PAT) of Rs. 1.71 crore on operating income of Rs. 72.20 crore compared with PAT of Rs. 1.53 crore on operating income of Rs. 77.12 crore for FY2015-16. The net worth stood at Rs. 20.44 crore as on 31 March, 2017 compared with Rs. 18.73 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
6-October, 2016	Cash Credit	Long Term	25.00	SMERA BB+/Stable (Assigned)
	Term Loan	Long Term	10.70	SMERA BB+/Stable (Assigned)
	Bank Guarantee	Short Term	0.08	SMERA A4+/Stable (Assigned)
	Letter of Credit	Short Term	7.15	SMERA A4+/Stable (Assigned)
	Proposed Long Term	Long Term	1.07	SMERA BB+/Stable (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	25.00	SMERA BB+/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A	4.83	SMERA BB+/Stable (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	6.94	SMERA A4+/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	7.15	SMERA A4+/Stable (Reaffirmed)
Proposed Long Term	N.A	N.A	N.A	0.08	SMERA BB+/Stable (Reaffirmed)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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