

Press Release

Tirupati Foam Limited

November 28, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 44.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to 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. TFL is engaged in manufacturing of bedding, quilts, pillows, cushions and sleeping bags i.e. manufacturing of coir foam mattresses and pillows. TFL produces Highly Durable Foam in India with professional capability to produce P U Foam in this industry. The company sells its products under the brand name 'Sweet Dream'. The company has two manufacturing plants, one at Noida and other at Khatraj (Ahmedabad). The installed capacity of the plants is 6000 MTPA each.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of TFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

TFL has been in the same line of business since 1986 and has evolved over the years from being an industrial foam manufacturer to starting its own brand 'Sweet Dream' foam mattresses and other comfort products by continuously being involved in R&D and innovating new products. TFL is one of the first companies to produce Highly Durable Foam for industrial and consumer uses. The Directors of TFL are Mr.Roshan P. Sanghavi, Mr.Satish A. Mehta and Mr. Deepak T. Mehta with more than two decades of extensive experience in the PU Foam industry. Longstanding presence in the market and experience of the directors has helped TFL to establish and maintain long standing relations with customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth and debt protection measures and healthy gearing. The net worth of TFL is moderate at around Rs.25.33 crore as on 31 March, 2018 which includes unsecured loans from promoters of Rs.3.81 crore as against Rs.24.25 crore as on 31 March, 2017. TFL has followed a conservative financial policy towards debt as reflected by peak gearing of 1.29 times over the last three years through 2016-18. The gearing of TFL has remained stable at 1.29 times as on March 31, 2018.

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.75 times as on 31 March, 2018 as against 1.85 times as on 31 March, 2017. Interest Coverage Ratio (ICR) has improved at 2.29 times in FY2018 and 2.18 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.12 times as on 31 March, 2018 as against 0.12 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) has slightly improved but remained average at 1.20 times for FY2018 from 1.16 times in FY2017. Acuite believes that the financial risk profile of TFL will continue to remain moderate over the medium term on account of its improving scale of operations.

- **Pan India distribution and wide range of product offerings**

TFL has a distribution network of more than 120 distributors pan India with manufacturing facilities in Ahmedabad and Noida with a capacity of 6000 MTPA each, respectively. TFL has a wide range of comfort products under its brand name 'Sweet Dream'. Some of the products include mattresses, foam sofas, pillows, comforters, yoga mats, among others.

Weaknesses

- **Declining margins**

TFL has recorded decline in margins marked by EBITDA margin of 9.09 percent in FY2018 as compared to 11.07 percent in FY2017 and 11.73 percent in FY2016. The decline is on account of increase in raw material prices and inability of TFL to pass it on to the customers due to intense competition.

- **Intense competition**

TFL faces intense competition from other established mattress manufacturing players such as Sleepwell, Kurl-On and Duroflex. Further, TFL also faces competition from unorganised players as well in the same industry.

- **Working capital intensive nature of business**

The operations of TFL are working capital intensive, however improved from last year as evident from high Gross Current Assets (GCA) of 162 days in FY2018 as against 225 days in the previous year. The reason for decrease in GCA days is on account of stretched inventory days which stood at 72 days for FY2018 as against 89 days for FY2017. Further, the debtor days stood at 88 for FY 2018 as against 110 days in FY2017. And the average cash credit limit utilisation stood at ~80 percent for the last six months ended as on 30 September, 2018. However, since TFL operates through a distribution network of more than 20 sales offices across India, hence, debtor days of ~120 days are a general trend. Further, the working capital utilisation of TFL is seasonal with low utilisation in the months of March, May and June as opposed to peak months of September to February. During peak months the cash credit utilisation remains at 95 percent.

- **Project implementation risk**

TFL is presently setting up a manufacturing unit in Noida where new products developed by TFL will be manufactured. The total estimated project cost is around Rs.14.91 crore which is expected to be funded through equity of Rs.5.22 crore and term loan of Rs.9.69 crore. TFL has incurred around Rs.10.08 crore as on 31 October, 2018 which has been funded entirely through own funds and the financial closure of the debt portion of the project is pending. The commercial operation is expected to commence from the beginning of FY2020. Hence, TFL is exposed to product risk as the new facility will be used to manufacture new range of products and project implementation risk as completion of the project within the estimated time and cost will be key rating sensitivity factor.

Outlook: Stable

Acuité believes TFL will continue to maintain a 'Stable' outlook over the medium term from 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	96.89	72.20	77.12
EBITDA	Rs. Cr.	8.81	7.99	9.05
PAT	Rs. Cr.	2.18	1.71	1.53
EBITDA Margin	(%)	9.09	11.07	11.73
PAT Margin	(%)	2.25	2.37	1.99
ROCE	(%)	12.85	12.09	12.94
Total Debt/Tangible Net Worth	Times	1.29	1.26	1.27
PBDIT/Interest	Times	2.29	2.18	1.96
Total Debt/PBDIT	Times	3.57	3.64	3.04
Gross Current Assets (Days)	Days	162	225	171

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Nov-2017	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	4.83	ACUITE BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	6.94	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	7.15	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.08	ACUITE BB+ / Stable (Reaffirmed)
06-Oct-2016	Letter of Credit	Short Term	7.15	ACUITE A4+ (Assigned)
	Proposed Long Term Loan	Long Term	1.07	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	10.70	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	0.08	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.83	ACUITE BB+ / Stable (Reaffirmed)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE A4+ (Reaffirmed)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.15	ACUITE A4+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.94	ACUITE BB+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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