Acuite
RATINGS & RESEARCH

Press Release

Tirupati Foam Limited

October 01, 2019

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

Acuité 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)** 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. TFL is engaged in manufacturing of P.U. Foam, bedding, quilts, pillows, cushions and sleeping bags i.e. manufacturing of coir foam mattresses and pillows. 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

Acuité 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. Long-standing 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**

  TFL's financial risk profile is moderate, marked by a moderate networth and gearing and above average debt protection metrics. TFL's networth is moderate estimated at around Rs. 26.92 crore as on March 31, 2019. The networth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves during the same period. The networth is inclusive of unsecured loans by promoters of Rs. 3.81 crore considered as quasi-equity. The company has followed a conservative financial policy in the past, the same is reflected through regular infusion of unsecured loans to support working capital requirements and its peak gearing levels of 1.48 as on 31 March, 2019 and total outside liabilities to tangible networth (TOL/TNW) of 1.84 times as on March 31, 2019. The company incurred capex of Rs.15.20 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs. 3.50 crore to support the increase in scale of operations. TFL's healthy cash accruals to the tune of about Rs. 3.37 crore for FY2019 have supported in minimizing the reliance on external debt lead to debt levels of Rs. 39.80 crore as on March 31, 2019, which includes unsecured loans of Rs.10.90 crore. TFL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 4.0-5.1 crores, which are comfortable to service its repayment obligations while supporting about 100 per cent of the routine capex and incremental working capital requirements. As a result, the gearing, however, is expected to be moderate at around 1.2 times as on March 31, 2021 on back of absence of any major debt funded capex plan and healthy accretion to reserves. The revenues of TFL increased by CAGR of around 10 per cent to Rs. 102.41 crore during 2018-19, while its operating margins were remained stable in the range of 9.5-11.1 per cent. The moderate profitability levels coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 0.08 times and 2.19 times, respectively. Acuité believes that considering the current capex plan, the remaining debt funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. However, any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

• 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

• Working capital intensive operations

TFL has stretched working capital cycle marked by GCA days of 155 days in FY2019 as against 162 days in FY2018. The receivables period increased to 97 days in FY2019 as against 88 days in FY2018. Since TFL operates through a distribution network of more than 20 sales offices across India, debtor days of ~120 days are a general trend in the company. Inventory days decreased to 59 days in FY2019 as against 72 days in FY2018. The working capital limit in TFL is utilized at 90 per cent on an average for the last six months ended August 2019.

• 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.

• On-going capex plans

TFL is presently setting up a new manufacturing unit at Noida, where value added products such as covered mattresses and quits will be manufactured. The total estimated project cost is ~Rs.14.91 crore which is funded through a debt-equity ratio of xx times. The equity contribution is Rs.9.47 crore and term loan of Rs.5.44 crore. Currently, construction is ~50% complete and the company has achieved the financial closure for the same. However, the project completion has faced a delay and the commercial operations is expected to start by end of FY2020. Acuité believes, any further delay in completion leading to cost overrun or will impinge a negative biased towards the rating.

Rating Sensitivity

- Improvement in scale of operations which maintaining profitability
- Lower-than-expected growth in operating revenues in FY2020
- Timely completion of capex without any cost overrun

Material Covenants

None

Liquidity position: Adequate

TFL has adequate liquidity marked by healthy net cash accruals to maturing debt obligations. TFL generated cash accruals of Rs. 2.6 to 3.4 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.9 to 2.7 crores for the same period. The cash accruals of TFL are estimated to remain around Rs. 5.1 to 4.9 crores during 2019-21, while its repayment obligations are estimated to be around Rs. 1.4 to 1.5 crores during the same time. TFL's operations are moderately working capital intensive managed but the company has kept moderate reliance on working capital borrowings, the cash credit limit in TFL remains utilized at 90 per cent during the last 6 months period ended August 2019. TFL maintains unencumbered cash and bank balances of Rs. 0.17 crore as on March 31, 2019. The current ratio of TFL stood healthy at 1.32 times as on March 31, 2019. TFL is not likely to incur any major capex to be funded by external borrowing.

Acuité believes that the liquidity of TFL is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuité believes that TFL will continue to maintain a 'Stable' outlook over the medium term from the experience of its management and established track record of operations. 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 utilization leading to declining revenues and profit margins and elongation in working capital.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	102.41	96.89	72.20
EBITDA	Rs. Cr.	9.70	8.81	7.99
PAT	Rs. Cr.	2.65	2.18	1.71
EBITDA Margin	(%)	9.47	9.09	11.07
PAT Margin	(%)	2.59	2.25	2.37
ROCE	(%)	13.27	12.85	23.39
Total Debt/Tangible Net Worth	Times	1.48	1.29	1.26
PBDIT/Interest	Times	2.19	2.29	2.18
Total Debt/PBDIT	Times	3.95	3.57	3.64
Gross Current Assets (Days)	Days	155	162	225

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

Any other information
None.

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.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
28-Nov-2018	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	4.83	ACUITE BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.08	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	7.15	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	6.94	ACUITE BB+ / Stable (Reaffirmed)
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	10.7	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	3.00	ACUITE BB+ /Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.15	ACUITE A4+ (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	8.77	ACUITE BB+ /Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.