

Press Release

Tirupati Foam Limited

December 21, 2020



Rating Reaffirmed and Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the 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'.

Also, Acuité has withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 3.00 crore bank facilities of TFL.

Ahmedabad, Gujarat based TFL was incorporated in 1986 by Mr. Roshan P. Sanghavi, Mr. Satish A. Mehta and Mr. Deepak T Mehta. TFL is engaged in manufacturing of P.U. foam, bedding, quilts, pillows, cushions and sleeping bags, i.e. manufacturing of 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 (Kalol). The installed capacity of two plants is 4500 MTPA each.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of TFL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and long standing track record of operations

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. 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. They have more than three 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.

Acuité believes that TFL will continue to benefit from its established track record of operations, experienced management and established relationships with customers and suppliers.

• Moderate financial risk profile

TFL has moderate financial risk profile marked by moderate net worth of Rs. 28.48 crore as on March 31, 2020 as compared to Rs. 26.92 crore on March 31, 2019. The net worth consists of quasi equity of Rs. 3.81 crore as on March 31, 2020 which are subordinated to bank borrowings. The gearing (debt-equity) stood at 1.49 times on 31 March, 2020 as compared to 1.48 times as on March 31, 2019. Total debt of Rs. 42.52 crore as on March 31, 2020 includes term loans of bank of Rs. 9.16 crore, working capital borrowing of Rs. 22.08 crore. The interest coverage ratio (ICR) marginally declined to 1.94 times in FY2020 as against 2.19 times in FY2019. The decline is majorly on account of increase in interest cost. TOL/TNW increased marginally to 2.00 times as on March 31, 2020 against 1.84 times as on March 31, 2019. DSCR stood at 1.51 times in FY2020 and 1.23 times in the previous year. Acuité believes that TFL's financial risk profile to remain in the absence of any significant debt funded capital expenditure.

- **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 Khatraj (Kalol) and Greater Noida with a capacity of 4500 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

- **Deterioration in working capital cycle**

The working capital of TFL has deteriorated in FY2020 over FY2019 marked by increase in Gross Current Asset (GCA) days of 207 days in FY2020 as against 155 days in FY2019. This is majorly on account of increase in receivable and inventory period. The receivables period increased to 126 days in FY2020 as against 97 days in FY2019. Inventory days increased to 80 days in FY2020 as against 59 days in FY2019. The working capital of TFL has majorly been impacted on account of the outbreak of COVID-19 led by lockdowns across the nation in March 2020. Adverse impact on working capital cycle is mitigated to some extent as the company has relations of almost two decades with its larger clients thus reducing the counterparty risk. The deterioration in working capital cycle has continued in H1FY2021 on account of continued COVID lockdown. However, the gradual opening up and increase in demand is expected to reduce this to some extent in the H2FY2021. Acuite believes that TFL's elongation in working capital cycle imparts negative bias to the rating and its ability to limit any further elongation the same will be a key ratingsensitivity.

- **Highly competitive industry**

TFL operates in the PU foam industry and has also added value added products like PU mattresses and pillows. The PU foam mattresses industry already has large established brands such as Sleepwell, Kurl-On and Duroflex. This limits TFL's ability to increase its scale of operation while maintaining profitability.

Liquidity Position: Stretched

TFL has generated cash accruals of Rs. 3.03 to 3.24 crore during the last three years through FY2020, while its maturing debt obligations were in the range of 1.18 - 0.95 crore per annum. The cash accruals are estimated to remain around Rs. 2.91-4.52 crore during 2021-23 while its repayment obligations are estimated to be around Rs. 1.20 to 2.50 crore. TFL's working capital cycle is has elongated in FY2020, which has led to reliance on bank borrowings to fund its incremental working capital requirement. The bank utilization limit in TFL remains at ~80 percent during the last six months period ended November 2020. TFL has unencumbered cash and bank balances of Rs. 0.31 crore as on March 31, 2020. The current ratio of TFL stands at 1.29 times as on March 31, 2020. Acuite believes that TFL's liquidity profile will remain stretched on account of elongated working capital cycle and moderate cushion between net cash accrual and repayment obligations.

Rating Sensitivities

- An improvement in the profitability while maintaining scale of operations
- Any further elongation in working capital cycle

Outlook: Stable

Acuite believes that the outlook for TFL will remain 'Stable' over the medium term on account of the experienced management, established track record of operations and moderate financial risk profile. The outlook will be revised to 'Positive' if the company is able to increase the scale of operations while maintaining profitability. On the contrary, the outlook will be revised to 'Negative' in a scenario of further elongation of working capital cycle, leading to increased reliance on bank borrowing resulting into decline in margins and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	79.85	102.41
PAT	Rs. Cr.	2.37	2.65
PAT Margin	(%)	2.97	2.59
Total Debt/Tangible Net Worth	Times	1.49	1.48
PBDIT/Interest	Times	1.94	2.19

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Oct-2019	Proposed Bank Facility	Long Term	8.77	ACUITE BB+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	7.15	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.08	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB+ / Stable (Reaffirmed)
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	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)

***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 Available	Not Available	Not Available	3.00	ACUITE BB+ (Withdrawn)
Bank 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 Long Term Loan	Not Applicable	Not Applicable	Not Applicable	11.77	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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