

## Press Release

Tirupati Foam Limited

March 04, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	36.77	ACUITE BB+   Stable   Reaffirmed	-
Bank Loan Ratings	7.23	-	ACUITE A4+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	44.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite 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 Cr. bank facilities of Tirupati Foam Limited (TFL). The outlook is '**Stable**'.

### Rationale for reaffirmation of ratings

The rating continues to draw comfort from the extensive experience of the management in the line of business, established relationships with its customer and supplier base, and recovery in its business risk profile as visible from the Q3FY2022 performance. The rating nonetheless remains constrained on deterioration in its working capital cycle till FY2021 and stretched liquidity position marked by inadequate NCA vis-à-vis its maturing debt obligations as on March 31, 2021, resulting in significant reliance on the realization of its debtors and inventory in FY2022 to service its maturing debt obligations.

### About the Company

Ahmedabad-based Tirupati Foam Limited was incorporated in 1986 by Mr. Roshan P. Sanghavi, Mr. Satish A. Mehta, and Mr. Deepak Mehta. TFL is engaged in the manufacturing of slab stack Polyurethane (PU) foam and customized PU foam products catering to multiple industries. TFL sells its products under the brand name 'Sweet Dream'. The company has manufacturing facilities, in Noida and Khatraj (Kalol) with an overall installed capacity of 9000 metric tonnes.

### Analytical Approach

Acuite has considered the standalone business risk profile and financial risk profile of Tirupati Foam Limited (TFL) to arrive at the rating.

### Key Rating Drivers

#### Strengths

Experienced management with a long-standing track record of operations and improvement in FY2022 performance

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. A long-standing presence in the market and the experience of the directors have helped TFL to establish and maintain long-standing relations with customers and suppliers. TFL has witnessed improvement in performance as reflected in the operating income till Q3FY2022 at ~Rs.72.00 Cr. as against FY2021 at Rs.73.58 Cr.

Acuité believes that TFL will continue to benefit from its established track record of operations, experienced management, and improvement in the demand for its products in the near to medium term.

### **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 9000 Metric Tonnes. 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 management**

TFL has witnessed a moderation in its working capital management on the back of stretch in debtors' collection period (mainly from distributors) and increase in inventory holding period during the FY2019-21, which has, in turn, affected its creditors' payment period during FY2019-21. The debtors' collection period increased to 135 days in FY2021 as against 126 days in FY2020 and 97 days in FY2019, while the creditors' payment also increased to 80 days in FY2021 as against 67 days in FY2020 and 37 days in FY2019. Further, the inventory holding period has also witnessed deterioration to 123 days in FY2021 as against 80 days in FY2020 and 59 days in FY2020 due to the impact of Covid-19.

Consequently, the GCA days stood elongated at 267 days in FY2021 as against 207 days in FY2020 and 155 days in FY2019. The increase in its GCA is also contributed by higher Cash and Bank Balances of Rs.2.39 Cr. as on March 31, 2021, as against Rs.0.31 Cr. as on March 31, 2020. Working capital limits remain utilized at an average of ~86 percent for the 7-month period ended January 2022.

Acuite believes that the expected improvement in FY2022 in the working capital operations of TFL will be a key rating factor in the near to medium term.

#### **Deterioration in the financial risk profile**

TFL has a moderate financial risk profile marked by a net worth of Rs.25.77 Cr. as on March 31, 2021, as against Rs. 28.48 Cr. on March 31, 2020. Acuite has considered the loans from related parties earlier treated as quasi-equity are now being treated as interest-bearing, noncommittal, unsecured loans forming part of the existing debt profile which currently comprises of both Long-Term Debt and Short-Term Debt. TFL's Gearing (Debt to Equity) stood at 2.05 times on March 31, 2021, as against 1.49 times as on March 31, 2020, while its TOL/TNW (Total Outside Liability to Total Net Worth) stood at 2.68 times on March 31, 2021, as against 2.00 times as on March 31, 2020.

The coverage indicators of TFL have deteriorated on a Y-O-Y basis marked by moderation in its Interest Coverage Ratio (ICR) to 1.66 times in FY2021 as against 1.94 times in FY2020 and 2.19 times in FY2019, while the Debt-Service Coverage Ratio (DSCR) stood at 1.24 times in FY2021 as against 1.51 times in FY2020 and 1.23 times in FY2019.

Acuite believes that TFL's ability to sustain/improve its current financial risk profile will be a key rating factor in the near to medium term.

#### **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.

### Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

### Material covenants

None

### Liquidity Position: Stretched

TFL's liquidity position remains stretched marked by inadequate Net Cash Accruals (NCA) of Rs.2.62 Cr. in FY2021 vis-à-vis its maturing debt obligations (CPLTD) of Rs.5.16 Cr. during the same period, the shortfall is being addressed by TFL on the back of improvement in the efficiency of working capital position by the quicker realization of debtors and inventory as informed by the management in FY2022. The net cash accruals are expected to be ~Rs.6.00-8.00 Cr. during the FY2022-24 period while its repayment obligations are expected to be below ~Rs.5.00 Cr. TFL's working capital cycle has deteriorated in FY2021, which has led to high reliance on bank borrowings to fund its incremental working capital requirement. The bank utilization limit of TFL remains at ~86 percent during the six-month period ended January 2022. TFL has unencumbered cash and bank balances of Rs.2.39 Cr. as on March 31, 2021, while the current ratio of TFL stood at 1.33 times as on March 31, 2021.

Acuite believes that TFL's ability to improve the management of its liquidity position will be a key rating factor in the near to medium term.

### 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 the working capital cycle, leading to increased reliance on bank borrowing resulting in a decline in margins and liquidity profile.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	73.58	79.85
PAT	Rs. Cr.	1.09	2.37
PAT Margin	(%)	1.48	2.97
Total Debt/Tangible Net Worth	Times	2.05	1.49
PBDIT/Interest	Times	1.66	1.94

### 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-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

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

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Dec 2020	Term Loan	Long Term	3.00	ACUITE BB+ (Withdrawn)
	Letter of Credit	Short Term	7.15	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BB+   Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	11.77	ACUITE BB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.08	ACUITE A4+ (Reaffirmed)
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	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE A4+   Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.15	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.63	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	14-07-2021	7.35	31-08-2023	1.77	ACUITE BB+   Stable   Reaffirmed
Bank of India	Not Applicable	Working Capital Term Loan	14-07-2021	7.50	31-08-2025	4.37	ACUITE BB+   Stable   Reaffirmed

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### About Acuité Ratings & Research

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