Press Release
Tirupati Foam Limited
May 30, 2023
Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.02	ACUITE BB+ | Stable | Reaffirmed	-
Bank Loan Ratings	5.75	Not Applicable | Withdrawn	-
Bank Loan Ratings	7.23	-	ACUITE A4+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	38.25	-	-
Total Withdrawn Quantum (Rs. Cr)	5.75	-	-

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

Acuité has withdrawn its rating on the Rs.5.75 Cr bank facilities of Tirupati Foam Limited (TFL). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating. The rating is being partially withdrawn on account of request received from the company and No dues certificate (NDC) received from the banker.

Rationale for rating reaffirmation

The rating reaffirmation of TFL takes into account improvement in the company's operating income in FY2022. The rating also draws comfort from company's experienced management with an established track record of operations and its moderate financial risk profile. The rating is however constrained by the company's declining operating margin on a year-on-year basis, moderately working capital-intensive operations, high bank limit utilisation and presence in a highly competitive and fragmented industry. Going forward, ability of TFL to improve its scale of operations and profitability margins while improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

TFL, incorporated in 1986, is engaged in manufacturing of Polyurethane (PU) foam and their articles such as mattress, cushions, pillow amongst others. The company sells its products under the brand name 'Sweet Dream'. The registered office of the company is located at Ahmedabad, Gujarat and the manufacturing units are located at Khatraj, Gujarat and Noida, Uttar Pradesh.

Analytical Approach

Acuité 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 and established track record of operations

TFL has an operational track record of more than three decades and over the years it has evolved from being an industrial foam manufacturer to further starting its own brand 'Sweet

Dream' foam mattresses and other comfort products. The company is promoted by Mr. Roshan P. Sanghavi (Managing Director) and other directors Mr. Satishkumar A. Mehta and Mr. Deepakkumar T. Mehta who possess more than three decades of extensive experience in the PU foam industry. The promoter and directors are being supported by its team of experienced professionals in managing day to day operations of TFL. The extensive experience of the promoter and directors has helped TFL to establish a healthy relationship with its customers and suppliers.

Acuité believes that TFL will continue to benefit from its experienced management with an established track record of operations.

Moderate financial risk profile
Financial risk profile of TFL is moderate marked by moderate net worth, low gearing and moderate debt protection metrics. The tangible net worth of the company stood improved at Rs.25 Cr as on 31 March, 2022 as against Rs.24 Cr as on 31 March, 2022 due to accretion to reserves. The gearing (debt-equity) stood improved at 1.71 times as on 31 March, 2022 as against 2.24 times as on 31 March, 2021. The gearing of the company is expected to improve further and remain low over the medium term on account of absence of any debt funded capex plans. The total debt of Rs.43 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.13 Cr, short term bank borrowings of Rs.16 Cr and unsecured loans from directors of Rs.14 Cr.

The interest coverage ratio improved at 2.09 times for FY2022 as against 1.66 times for FY2021 whereas the DSCR stood declined at 0.89 times for FY2022 as against 1.24 times for FY2021. The Net Cash Accruals to Total debt stood marginally improved at 0.10 times for FY2022 as against 0.05 times for FY2021. The Total outside liabilities to Tangible stood improved at 2.49 times for FY2022 as against 2.94 times for FY2021. The Debt-EBITDA ratio stood improved at 4.68 times for FY2022 as against 6.78 times for FY2021.

Acuité believes that the financial risk profile of TFL will remain comfortable over the medium term due to its moderate debt levels vis-à-vis moderate tangible net worth, and comfortable debt protection metrics.

Increase in revenue albeit decline in operating margin
TFL reported an increase in its revenue of Rs.103 Cr in FY2022 as against Rs.74 Cr in FY2021 which is a growth of ~40 percent and has achieved this on account of improved demand in the domestic market post the pandemic phase towards the industrial polyurethane (PU) foam manufactured by the company for its end usage across various products such as mattress, furniture, automobile, shoes amongst others. The improved sales of the company are led by increase in the quantity sold as well as increase in the prices during the year. The capacity utilisation of the company to produce the industrial PU foam has significantly improved to ~53 percent in FY2022 as against ~44 percent in FY2021.

Despite of increase in the overall revenue, the operating margin of the company however stood deteriorated on a year-on-year basis primarily on account of significant increase in the raw material prices. It stood at 8.79 percent in FY2022 as against 10.48 percent in FY2021, whereas the net profit margin of the company stood improved at 1.78 percent in FY2022 as against 1.48 percent in FY2021 due to reduced interest cost during the year.

For the current year as on 9M FY2023, the company has achieved revenue of Rs.77 Cr as against Rs.72 Cr as on 9M FY2022. Further, the company is expected to generate stable revenue in the range of Rs.100 Cr to Rs.105 Cr by the year end due to reduced prices caused by overall volatility in the petroleum prices during the year despite of increase in the quantity sold by the company.

Acuité believes that the ability of TFL to improve its scale of operations and profitability margins will remain a key rating sensitivity factor.

Weaknesses

Moderately working capital intensive operations
The working capital operations of TFL are moderately intensive marked by its Gross Current Assets (GCA) of 173 days for FY2022 which stood improved as against 268 days for FY2021. This is due to inventory and receivables cycle of the company which though remains elongated, however

recorded an improvement in FY2022 of 91 days and 84 days as against 123 days and 135 days in FY2021. Further, the creditors cycle of the company also stood improved at 69 days in FY2022 as against 80 days in FY2021. The average bank limit utilization for 6 months' period ended March 2023 however stood high at ~89 percent.

Acuité believes that the ability of TFL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

Highly competitive and fragmented nature of industry
TFL operates in the PU foam industry, which is a highly competitive and fragmented industry, characterized by a large number of established players such as Sleepwell, Kurl-On, Duroflex amongst others which can have an impact on the profitability margins of the company. However, this can be partially offset by the extensive experience of the promoters in the aforementioned business line.

Rating Sensitivities

- Ability to improve scale of operations and profitability margins
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Adequate

TFL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.3 Cr to Rs.4 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.1 Cr to Rs.4 Cr during the same period. Going forward the NCA are expected in the range of Rs.4 Cr to Rs.6 Cr for period FY2023-FY2025 against its repayment obligation in the range of Rs.3 Cr to Rs.4 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 173 days for FY2022. The average bank limit utilization for 6 months' period ended March 2023 however stood high at ~89 percent. Current ratio stands at 1.37 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.37 Cr in FY2022.

Acuité believes that liquidity of TFL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that TFL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	102.68	73.58
PAT	Rs. Cr.	1.83	1.09
PAT Margin	(%)	1.78	1.48
Total Debt/Tangible Net Worth	Times	1.71	2.24
PBDIT/Interest	Times	2.09	1.66

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

Not applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Bank Guarantee	Short Term	0.08	ACUITE A4+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.77	ACUITE BB+ | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	4.37	ACUITE BB+ | Stable (Reaffirmed)
	Letter of Credit	Short Term	7.15	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	5.63	ACUITE BB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BB+ | Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.08	ACUITE A4+ | Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB+ | Stable | Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.15	ACUITE A4+ | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.98	Not Applicable | Withdrawn
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.62	ACUITE BB+ | Stable | Reaffirmed
Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.77	Not Applicable | Withdrawn
Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.25	ACUITE BB+ | Stable | Reaffirmed
Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.15	ACUITE BB+ | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.