ICRA

July 29, 2022

Duroflex Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	13.50	23.74	[ICRA]A (Stable); rating reaffirmed
Long-term – Fund-based – Cash credit	30.00	40.00	[ICRA]A (Stable); rating reaffirmed
Short-term – Non-fund based – Working capital facilities	27.00	20.26	[ICRA]A1; rating reaffirmed
Long-term/Short-term- Unallocated	13.50	-	-
Total	84.00	84.00	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation continues to draw strength from Duroflex Private Limited's (DPL) long track record of operations and its strong brand presence in the mattress industry in South India. It is one of the leading players in the organised segment of the Indian mattress industry. The ratings draw comfort from the company's diversified product portfolio across mattress categories and various price points, along with its well-entrenched distribution network. In FY2022, DPL received a fresh equity of Rs. 204 crore from Norwest Capital, LLC, which led to a strong liquidity and leverage position, which will support its growth plans and working capital requirements. It reported debt outstanding of Rs. 125 crore against cash and equivalents of Rs. 220 crore as on March 31, 2022. Further, DPL (at the consolidated level) witnessed significant improvement in scale in FY2022, backed by healthy sales volume, increase in average realisations and aggressive marketing.

The ratings, however, are constrained by the steep reduction in DPL's profit margins led by sharp upswing in input prices, significant selling costs and heavy discounts to boost sales through the intensely competitive e-commerce channels, as well as the impact of the Covid-19 pandemic in Q1 FY2022. However, the profitability is expected to improve going forward on the back of waning impact of the pandemic, rising scale with expansion in new geographies, improved realisations, and higher absorption of fixed costs. Nevertheless, the profit margins will remain exposed to fluctuations in input prices. The prices of key raw materials essential for production of foam have seen substantial fluctuations in the recent past, which affected its profitability in FY2022. DPL reported OPBITDA margin of 6% in Q1 FY2023 and ICRA expects the company to report improved margins in FY2023 against FY2022 levels. Given the current volatility in input prices, movement in foreign exchange rates and intense competition in the mattress industry, any continuing pressure on the company's margins would remain a rating sensitivity.

Further, the ratings remain constrained by the stiff competition in the industry, which is dominated by unorganised players as well as large organised players, thereby restricting the company's margins. Further, aggressive expansion by certain new entrants in the market have eroded the margins. DPL is also exposed to geographical concentration risk as majority of the sales are currently derived from South India.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to benefit from its established track record and strong brand recall in South India, moderate leverage position and strong liquidity profile.

Key rating drivers and their description

Credit strengths

Long track record of operations and renowned brand in South India – DPL is one of the leading manufacturers of mattresses in South India, with presence spanning over five decades in the industry. It enjoys a strong brand presence and customer acceptance in South India. Its wide product offerings and established brand in the industry provides a competitive advantage in the southern markets.

Diverse product portfolio and distribution channel – The company has a well-entrenched distribution network, with further plans to increase its geographical base. DPL has products across categories in the mattress segments and price points. It is also expanding its presence in the furniture segments.

Comfortable leverage and strong liquidity position – The company's leverage position remained comfortable in FY2022. The consolidated debt increased to Rs. 125 crore in FY2022 from Rs. 51 crore in FY2021, chiefly led by an increase in working capital debt to support the rising scale. However, DPL reported strong cash and equivalents of Rs. 220 crore as on March 31, 2022, against its debt outstanding. The robust liquidity is supported by fresh equity infusion of Rs. 204 crore from a private equity fund in October 2021. Further, the consolidated debt repayments are moderate in the medium term.

Credit challenges

Sharp decline in profitability in FY2022 – The operating margin (at the consolidated level) declined to 0.2% (provisional) in FY2022 from 7.4% in FY2021, primarily because of high material costs, significant selling costs (to gain market share from the organised and unorganised players in the new geographies) and heavy discounts to boost sales through e-commerce channels, amid increased employee expenses (towards strengthening sales operations in the new markets) and rent expenses. The company (at the consolidated level) reported a net loss of Rs. 24.9 crore in FY2022 against a net profit of Rs. 20.5 crore in FY2021. However, the profitability is expected to improve going forward on the back of the waning impact of the pandemic, rising scale with expansion in new geographies, improved realisations and higher absorption of fixed cost. DPL reported OPBITDA margin of 6% in Q1 FY2023 and ICRA expects the company to report improved margins in FY2023 against FY2022 levels.

Susceptibility to fluctuations in raw material prices and intense competition in the industry – The company's profit margins are exposed to fluctuations in input prices and it may not be able to fully pass on any steep increase in input costs in the mattress business. The prices of key raw materials essential for production of foam (TDI and polyol - crude oil derivatives) have seen substantial fluctuations in the recent past, which impacted its profitability in FY2022. Further, the competitive nature of the industry also constrains the profit margins of Duroflex. DPL also faces intense competition from leading organised players, such as Sheela Foam, Kurlon and Peps, and numerous unorganised players. Further, aggressive expansion by certain new entrants in the market have eroded the margins.

High dependence on South India – The company's revenue profile is highly concentrated in South India with most of the mattress and accessories revenues derived from Karnataka, Kerala, Tamil Nadu, Andhra Pradesh and Telangana. Nonetheless, DPL is gradually expanding in other geographies to increase scale and achieve greater geographical diversification.

Liquidity position: Strong

DPL's liquidity position is strong, supported by cash and bank balances of Rs. 220 crore along with available undrawn bank lines of Rs. 36.2 crore as on March 31, 2022. Further, the cash flows from operations will be adequate to cover the debt servicing obligations, incremental working capital requirements as well as routine capex.

Rating sensitivities

Positive factors – The ratings may be upgraded in case there is significant improvement in the company's revenues, profitability and debt protection metrics on a sustained basis, while maintaining strong leverage and liquidity position. Further, improved geographical diversification will be credit positive.

Negative factors – The ratings may be downgraded in case of continued pressure on the company's profitability and debt protection metrics, or if the operating profitability remains below 5.0% on a prolonged basis. Further, weakening of the capital structure or liquidity position for an extended period will exert downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity

About the company

Incorporated in 1963, Duroflex Private Limited (DPL) is one of the leading manufacturers of mattresses in South India. It manufactures rubberised coir, PU foam and spring mattresses. Further, the company manufactures PU foam for usage in a wide range of industries. It also sells other home comfort products such as pillows, bedspreads, cushions, protectors, and comforters. At present, the company owns and operates four manufacturing facilities in India— Anekal, Karnataka; Hosur, Tamil Nadu; Nacharam, Hyderabad and Indore, Madhya Pradesh. In October 2018, it received an investment from Lighthouse PE Fund for a minority stake of 23%. Further, in October 2021, DPL received an investment from Norwest Capital, LLC (NVP) for a minority stake of 18.09% through primary and secondary investment routes (Lighthouse Fund sold part of its stake to NVP).

Key financial indicators

DPL consolidated	FY2020	FY2021	FY2022
	Audited	Audited	Provisional
Operating income (Rs. crore)	423.2	566.6	921.9
PAT (Rs. crore)	19.1	20.5	-24.9
OPBDIT/OI (%)	6.9%	7.4%	0.2%
PAT/ OI (%)	4.5%	3.6%	-2.7%
Total outside liabilities/Tangible net worth (times)	0.7	1.1	0.9
Total debt/OPBDIT (times)	1.1	1.3	72.0
Interest coverage (times)	6.9	5.9	0.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of March 2022* (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
		Current rating (FY2023)				Chronology of rating history for the past 3 years		
					July 29, 2022	Apr 6, 2021	Oct 6, 2020	Aug 26, 2019
1	**Term loans**	Long-Term	23.74	18.43	**[ICRA]A(Stable)**	**[ICRA]A(Stable)**	**[ICRA]A-(Positive)**	**[ICRA]A-(Positive)**
2	**Fund-based – Cash credit**	Long-Term	40.00	-	**[ICRA]A(Stable)**	**[ICRA]A(Stable)**	**[ICRA]A-(Positive)**	**[ICRA]A-(Positive)**
3	**Non-fund based limits**	Short-Term	20.26	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
4	**Unallocated**	Long-Term/ Short-Term	-	-	-	**[ICRA]A(Stable)/ [ICRA]A1**	**[ICRA]A-(Positive)/ [ICRA]A2+**	**[ICRA]A-(Positive)/ [ICRA]A2+**

** as per the management*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Term loan	Simple
Long term - Fund-based - Cash credit	Simple
Short term - Non-fund based	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Term loan 1	October 2021	-	May 2025	13.74	[ICRA]A (Stable)
NA	Long-term Fund-based – Term loan 2	June 2021	-	July 2026	10.00	[ICRA]A (Stable)
NA	Long-term Fund-based – Cash credit	-	-	-	40.00	[ICRA]A (Stable)
NA	Short-term - Non-fund based-Working capital facilities	-	-	-	20.26	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis:

Company Name	DPL Ownership	Consolidation Approach
Palmspring Mattresses Private Limited	99.80%	Full Consolidation
Sleepyhead Home Décor Private Limited	99.96%	Full Consolidation
Shivaarna Technofoams Private Limited	100.00%	Full Consolidation

Source: Company financials

ANALYST CONTACTS

Rajeshwar Burla
+91-040-4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80-4332 6415
mathew.eranat@icraindia.com

Kapil Banga
+91 124-4545 391
kapil.banga@icraindia.com

Hemant Dahiya
+91 124 4545 365
hemant.dahiya@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches