

October 31, 2023

Duroflex Private Limited: Ratings downgraded and outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	23.74	23.74	[ICRA]BBB+ (Negative); downgraded from [ICRA]A, outlook revised from Stable
Long-term – Fund-based – Cash credit	40.00	40.00	[ICRA]BBB+ (Negative); downgraded from [ICRA]A, outlook revised from Stable
Short-term – Non-fund based – Working capital facilities	20.26	20.26	[ICRA]A2; downgraded from [ICRA]A1
Total	84.00	84.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade of the ratings and revision in outlook to Negative factors in the sustained pressure on the operating margins of Duroflex Private Limited (DPL) resulting in weakening of debt coverage metrics. DPL reported modest operating margins in H1 FY2024 and while the margins are expected to improve in H2 FY2024 driven by the recent increase in selling prices and higher sales backed by festive season resulting in better absorption of fixed costs, the extent of improvement remains to be seen. Further, the high competitive intensity in the mattress industry from home furnishing start-ups, large organised and unorganised players, constraints the pricing flexibility. Consequently, the debt coverage metrics are expected to continue to remain moderate. The company's operating margins were adversely impacted (compared to FY2021) for two years in a row i.e. FY2022 & FY2023 due to higher raw material prices, significant selling costs and increased employee expenses (towards strengthening sales operations in the new markets). As per the provisional financials for FY2023, DPL has reported an increase in operating income by 20% to Rs. 1,070 crore, moderate operating margins at 5.3% (PY: operating losses at -1%) and debt coverage metrics with interest coverage at 3.7 times and DSCR at 1.4 times. However, ICRA notes that there has been a difference in the provisional and audited financials shared by the entity in the past. DPL continues to factor in the volatility in profit margins to fluctuations in input costs and the company's revenues are also exposed to geographical concentration risk as majority of the sales are derived from South India.

The ratings continue to draw strength from DPL's long track record of operations and its strong brand presence in the mattress industry in South India and the company's improving geographical and product diversification over the recent years. As per the provisional financials, the total debt (excluding lease liabilities) of the company declined to Rs. 44 crore as on September 30, 2023 from Rs. 154 crore as on March 31, 2023. The ratings are supported by adequate liquidity which unencumbered cash and bank balances of Rs. 119 crore as on September 30, 2023 (Rs. 105 crore as on March 31, 2023).

Key rating drivers and their description

Credit strengths

Long track record of operations and its strong brand presence in the mattress industry 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.

Improving geographical and product diversification – Over the recent years, the company has diversified its geographical presence with expanding presence in markets beyond South India as well as exports to furniture OEMs. The contribution from

South India has reduced to 62% in FY2023 (66% in FY2022 and 74% in FY2021) and contribution from exports has improved to 12% in FY2023 (3% in FY2022 and 0% in FY2021). DPL has products across categories in the mattress segments and price points. Additionally, the company has plans to expand its presence furniture and accessories business which will aid revenue growth and diversification.

Credit challenges

Sustained pressure on operating margins and moderation in debt coverage metrics – DPL reported modest operating margins in H1 FY2024 and while the margins are expected to improve in H2 FY2024 driven by the recent increase in selling prices and higher sales backed by festive season resulting in better absorption of fixed costs, the extent of improvement remains to be seen. The company's operating margins were adversely impacted for two years in a row i.e. FY2022 & FY2023 due to higher raw material prices, significant selling costs and increased employee expenses (towards strengthening sales operations in the new markets). As per the provisional financials for FY2023, DPL has reported an increase in operating income by 20% to Rs. 1,070 crore, moderate operating margins at 5.3% (PY: operating losses at -1%). Consequently, the debt coverage metrics remained moderate with interest coverage at 3.7 times and DSCR at 1.4 times as of March 2023 (as per provisional financials).

Susceptibility to fluctuations in raw material prices– 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 and FY2023.

High competitive intensity in the industry- The competitive nature of the industry has constrained DPL's pricing flexibility. DPL also faces intense competition from leading organised players, such as Sheela Foam, Kurlon and Peps, numerous unorganised players as well as home furnishing start-ups. Further, aggressive expansion by certain new entrants in the market has moderated the margins.

Liquidity position: Adequate

DPL's liquidity position is adequate, supported by free cash and bank balances of ~Rs. 119 crore along with available undrawn bank lines of ~Rs. 45 crore as on September 30, 2023 as against repayment obligation of ~Rs. 7 crore in H2 FY2024.

Rating sensitivities

Positive Factor: The outlook on the long-term rating may be revised to stable if there is a sustained improvement in the operating margins and debt coverage metrics while maintaining healthy growth in revenues and healthy leverage metrics.

Negative Factor: The rating may be downgraded if there is a significant decline in revenues or inability to improve the operating margins or an increase in indebtedness adversely impacting the debt protection metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Duroflex Private Limited and its subsidiaries given the close business, financial and managerial linkages among them. Refer Annexure II.

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 five manufacturing facilities in India—two each in Hosur (Tamil Nadu) and Indore (Madhya Pradesh) and one facility in Karimangalam (Tamil Nadu). In October 2018, DPL received an investment from Lighthouse PE Fund for a minority stake of 23%. Further, in October 2021, the company received an investment from Norwest Capital LLC (Norwest Venture Partners/ NVP) for a minority stake of 19.27% through primary and secondary investment routes (Lighthouse Fund sold part of its stake to NVP).

Key financial indicators (audited)

DPL (Consolidated)	FY2021	FY2022	FY2023*
Operating income	566.6	893.4	1070.1
PAT	20.5	-32.1	-13.6
OPBDIT/OI	7.4%	-1.0%	5.3%
PAT/OI	3.6%	-3.6%	-1.3%
Total outside liabilities/Tangible net worth (times)	1.1	0.9	1.1
Total debt/OPBDIT (times)	1.3	-15.7	3.1
Interest coverage (times)	5.9	-1.0	3.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT.

Source: Company annual reports, ICRA Research, *as per provisional financials

Status of non-cooperation with previous CRA: None

Any other information

ICRA notes the Auditor's comments in DPL's audited financials of FY2022 that mentions seven instances of delays in principal repayment/interest payment of around Rs. 0.25 crore each on the term loans from one of the lenders. However, there was adequate cushion in the CCOD account to recover the principal and interest for all the months of FY2022 as per the bank statements on the due date except in December 2021 and January 2022. While there was an auto-debit instruction to the bank to debit the company's CCOD account for making the term loan principal and interest payment on the due date, the auto-debit instruction was not carried out on the due date. The due amounts were debited with a lag of around seven days. ICRA notes that had the due amounts been auto debited on the applicable due dates, the CCOD account would have become overdrawn for around seven days, as inferred from the CCOD account statements of December 2021 and January 2022. The company had sufficient liquidity buffers in relation to the amount due to be paid in these months. As per ICRA's Policy on Default Recognition, the definition of default on OD limit is when the limits remain continuously overdrawn for more than 30 days. Hence, ICRA is not recognizing these instances as default.

Rating history for past three years

Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding in (Rs. crore) as on March 31, 2023	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				October 31, 2023	July 29, 2022	April 06, 2021	October 06, 2020
1 Long-term – Fund-based – Term loans	Long-Term	23.74	3.44	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
2 Long-term – Fund-based – Cash credit	Long-Term	40.00	-	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
3 Short-term – Non-fund based – Working capital facilities	Short-term	20.26	-	[ICRA]A2	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4 Unallocated	Long-Term/Short-term	-	-	-	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Positive)/[ICRA]A2+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based – Working capital facilities	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	FY2019	-	FY2024	13.74	[ICRA]BBB+ (Negative)
NA	Term Loan-2	FY2022	-	FY2027	10.00	[ICRA]BBB+ (Negative)
NA	Long-term – Fund-based – Cash credit	-	-	-	40.00	[ICRA]BBB+ (Negative)
NA	Short-term – Non-fund based – Working capital facilities	-	-	-	20.26	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis:

Instrument Name	DPL ownership*	Consolidation Approach
Palmspring Mattresses Private Limited	100%	Full Consolidation
Sleepyhead Home Décor Private Limited	100%	Full Consolidation
Shivaarna Technofoams Private Limited (Indore based foam manufacturer)	100%	Full Consolidation
Rem42 Technologies Private Limited	99.49%	Full Consolidation

*as per FY2022 audited financials; DPL's shareholding in Rem42 Technologies Private Limited has increased to 100% as per FY2023 provisional financials

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