

May 31, 2023

Kurlon Enterprise Limited: Ratings downgraded to [ICRA]A (Stable)/[ICRA]A2+, for existing limits; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based CC	25.00	58.00	[ICRA]A (Stable); downgraded from [ICRA] A+(Stable) for existing limits and [ICRA] A (Stable) assigned for enhanced limits
Short term Non-fund based	15.00	15.00	[ICRA]A2+; downgraded from [ICRA] A1+
Total	40.00	73.00	

*Instrument details are provided in Annexure I

Rationale

The rating downgrade factors in the sustained pressure on operating margins along with depletion of liquidity and increase in leverage, given the exit provided to private equity investor. Kurlon Enterprise Limited (KEL)'s operating margins declined to 2.4-4% in FY2022 and FY2023 (14.2% in FY2021) due to an increase in selling expenses and input costs. While the company is focusing on premium products and optimisation of costs in current year, the ability of the company to improve the operating margins remains to be seen. In FY2023, KEL has provided exit to private equity investor, Motilal Oswal Private Equity Investment Advisors through a group company, Kurlon Trading & Invest Management Private Limited (KTIMPL, wholly owned subsidiary of Kurlon Limited). The exit was funded by KEL's liquidity of Rs. 125 crore and Rs. 200 crore debt¹ availed by KTIMPL, which acquired a 6.19% stake in KEL. KEL's consolidated debt is expected to increase to ~Rs. 172 crore (~Rs. 7 crore as on March 2022) and consequently, leverage is likely to increase, with Total Debt/OPBIDTA around 3.5 times as on March 2024 (0.4 times as on March 2022) and debt coverage metrics are likely to further moderate. Further, the liquidity depleted with decline in cash and liquid investments to Rs. 12 crore as on March 2023 from Rs. 155 crore as on March 2022. The ratings also factor KEL's geographic concentration risk, with the southern market contributing to ~45% of total sales in FY2023, making its business dependent on consumer spending and macro-economic factors impacting the region. Nonetheless, KEL is attempting to diversify into other regions and expand the share of sales from other channels such as e-commerce. Also, the Group faces stiff competition from home furnishing start-ups, other branded players and the unorganised segment.

The ratings continue to factor in the long and established presence of the Kurlon Group as one of the largest organised players in the Indian mattress market, with a strong brand recall for its products. KEL has a diversified product portfolio across mattress categories and various price points, along with its widespread pan-India distribution network enabling it to maintain its strong position in the mattress industry. The ratings also factor in the estimated increase in the company's revenues by around 22-23% to Rs. 970-980 crore in FY2023 (PY: Rs. 795 crore) with an improvement in demand leading to higher sales volumes and realisations. Further, the revenues are likely to grow by 10-11% in FY2024 supported by healthy demand.

¹ KEL's Cashflows will be routed through KL to meet debt obligation of debt in KTIMPL.

Key rating drivers and their description

Credit strengths

Established track record and strong brand recall in the Indian mattress industry: The Kurlon Group has an established presence as one of the largest organised players in the Indian mattress market, with a strong brand recall among its consumers.

Diversified product portfolio and strong distribution network: KEL has a diversified product portfolio across mattress categories and various price points, along with its widespread pan-India distribution network enabling it to maintain its strong position in the mattress industry.

Revenue estimated to increase by ~22-23% in FY23; remain healthy in FY2024: The company's revenues are estimated to increase by around 22-23% to Rs. 970-980 crore in FY2023 (PY: Rs. 795 crore) with an improvement in demand leading to higher sales volumes and realisations. Further, the revenues are likely to grow by 10-11% in FY2024 supported by healthy demand.

Credit challenges

Sustained moderate operating margins; increase in leverage and pressure on debt coverage metrics: KEL's operating margins declined to 2.4-4% in FY2022 and FY2023 (14.2% in FY2021) due to an increase in selling expenses and input costs. While the company is focusing on premium products and optimisation of costs in current year, the ability of the company to improve the operating margins remains to be seen. In FY2023, KEL has provided exit to private equity investor, Motilal Oswal Private Equity Investment Advisors through a group company, Kurlon Trading & Invest Management Private Limited (KTIMPL, wholly owned subsidiary of Kurlon Limited). The exit was funded by KEL's liquidity of Rs. 125 crore and Rs. 200 crore debt availed by KTIMPL, which acquired a 6.19% stake in KEL. KEL's consolidated debt is expected to increase to ~Rs. 172 crore (~Rs. 7 crore as on March 2022) and consequently, leverage is likely to increase, with Total Debt/OPBIDTA around 3.5 times as on March 2024 (0.4 times as on March 2022) and debt coverage metrics are likely to further moderate. Further, the liquidity depleted with decline in cash and liquid investments to Rs. 12 crore as on March 2023 from Rs. 155 crore as on March 2022

Exposure to geographical concentration risks: KEL is exposed to geographic concentration risks with the southern market contributing to ~45% of total sales in FY2023, making its business dependent on consumer spending and macroeconomic factors impacting the region. Nonetheless, KEL is attempting to diversify into other regions and expand the share of sales from other channels such as e-commerce.

Stiff competition in Mattress Industry: The Group faces stiff competition from home furnishing start-ups, other branded players and the unorganised segment.

Liquidity position: Adequate

KEL's liquidity position is expected to be adequate. KEL has around Rs. 12 crore Cash and equivalents as on March -23 (including 3 months of Interest Service Reserve Account (ISRA) for loan availed in KTIMPL). Further, the company has ~Rs 55 crore of sanctioned working capital limits which are mostly unutilized during last 12 months. The company does not have any major capex plans in FY2024 and the debt repayment obligations (for KTIMPL's loan) is ~Rs. 12 crore in FY2024, which are likely to be comfortably met from cash flow from operations.

Rating sensitivities

Positive factors – The rating can be upgraded if the company demonstrates sustained increase in its revenues, profitability along with an improvement in debt coverage metrics and liquidity position.

Negative factors – Pressure on KEL’s rating could arise in case of inability to improve operating margins along with debt protection metrics at consolidated level. The rating may also be revised if there is an increase in its debt funded capital expenditure or incremental advances to Group companies weakens its consolidated liquidity position or debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone*	For arriving at the ratings, ICRA has considered consolidated financials of Kurlon Enterprise Limited (along with its subsidiaries) and Kurlon Trading & Invest Management Private Limited (KTIMPL) as KEL’s cashflows will be utilised to meet debt obligation of loan in KTIMPL.

* Details are provided in Annexure II

About the company

KEL was incorporated in October 2011 as a 99.99% subsidiary of Kurlon Limited (KL). KL was incorporated in February 1962 as Karnataka Consumer Products Limited by Mr. T. Ramesh U. Pai. The company’s name was changed to Kurlon Ltd. in 1995. In March 2014, KL signed a business transfer agreement with KEL, effective from April 01, 2014, to transfer the business division of mattress, foam, furniture and other products (including assets, liabilities, contracts and licenses) of the former, as a going concern, on a slump-sale basis to KEL. In consideration for the net assets taken over, KEL issued shares to KL. Under the agreement, all land and buildings were retained by KL and all plant and machinery (except the Gwalior plant) were transferred to KEL. The core operations of the mattress, foam and furniture business are now carried out by KEL, and all the products manufactured by KL (through the Gwalior plant) are sold to KEL.

The Group has manufacturing facilities for rubberised coir in Yeswanthpur (Bangalore), Bhubaneswar and Gwalior; polyurethane foam manufacturing facility at Dabaspet (Karnataka), Roorkee (Uttarakhand) and Jhagadia (Gujarat); and spring manufacturing facility at Peenya (Bangalore), Jhagadia (Gujarat) and Bhubaneshwar.

Kurlon Trading & Invest Management Private Limited (KTIMPL) is incorporated in May 2022 with a purpose of acquiring 6.19% stake held by Motilal Oswal Private Equity and IFC in KEL.

Key financial indicators

KEL (Consolidated)	FY2021	FY2022
Operating income (Rs. crore)	758.8	795.2
PAT (Rs. crore)	33.6	-5.6
OPBDIT/OI (%)	14.2%	2.4%
PAT/OI (%)	4.4%	-0.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	0.1	0.4
Interest coverage (times)	20.4	3.4

Source: Company and ICRA Research; PAT: Profit After Tax, OPBDIT: Operating Profit Before Depreciation, Interest and Tax, OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				May 31, 2023	Feb 15, 2022	January 08, 2021	November 08, 2019
Cash credit	Long-term	58.00	-	[ICRA] A (Stable)	[ICRA] A + (Stable)	[ICRA] A+ (positive)	[ICRA] A+ (positive)
Letter of credit	Short term	15.00	-	[ICRA]A2+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	-	NA	58.0	[ICRA]A (Stable)
NA	Letter of credit	NA	NA	NA	15.0	[ICRA]A2+

Source: Company data

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kurlon Trading & Invest Management Private Limited	NA	Full Consolidation

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Branches



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