

November 08, 2019

## Kurlon Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	17.0	17.0	[ICRA]A (Stable) reaffirmed
Unallocated facilities	4.0	4.0	[ICRA]A (Stable) reaffirmed
<b>Total</b>	<b>21.0</b>	<b>21.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings take into consideration the established presence of Kurlon Group in the Indian mattress segment and its position as one of the largest organised players in the Indian mattress market. Kurlon Group enjoys strong brand recall among its consumer base and has a network of dealers and stores located across the country. Kurlon Limited (KL) is expected to derive significant financial flexibility and dividend income from its majority shareholding in Kurlon Enterprise Limited (KEL, rated [ICRA]A+ with positive outlook), which is the company undertaking the mattress operations of the group.

The ratings, however, are constrained by the modest financial profile of KL on a standalone basis characterised by small scale of operations and low operating margins. Dividend income and lease rentals from KEL, are expected to support the cash flows of KL, going forward. KL is also expected to receive compensation from KEL for any incremental capital expenditure incurred by it towards expansion and maintenance of KL's facilities leased by KEL. However, the subsidiary's ability to provide direct funding support to KL would be limited to some extent by the presence of external investors in it. The rating also factors in the intense competition in the mattress industry with the presence of other large players and the unorganised sector.

### Key rating drivers and their description

#### Credit strengths

**Established track record and strong brand recall in the Indian mattress industry** - Kurlon Group has an established presence in the Indian mattress segment and currently is one of the largest organised players in the Indian mattress market. Kurlon Group enjoys strong brand recall among its consumer base and has a network of dealers and stores located across the country.

**Strong financial flexibility** – The core mattress and foam products business of the group are carried out in KEL. KL, being the majority shareholder in KEL, enjoys significant financial flexibility in form of dividend income as well as lease rentals against the manufacturing facilities leased to KEL. KL is also expected to receive compensation from KEL for any incremental capital expenditure incurred towards expansion and maintenance of manufacturing facilities used by KEL. The strong financial profile and market position of KEL supports the financial flexibility of KL.

## Credit challenges

**Modest financial profile on a standalone basis** - On a standalone basis, KL has a modest financial profile characterised by small scale of operations and low operating margins. Dividend income and lease rentals from KEL, are expected to support the cash flows of KL and would be adequate to service the current debt outstanding. However, the subsidiary's ability to provide direct funding support to KL would be limited to some extent by the presence of external investors in it.

**Highly competitive nature of mattress industry** - The Group faces intense competition as the mattress industry is still dominated by unorganised players that manufacture coir, cotton, foam and low-priced cotton mattresses. The Group also faces competition from other leading organised players such as Sheela Foam, and Duroflex.

## Liquidity position: Adequate

KL's liquidity profile is adequate, supported by dividend, lease rental and interest income from its investments and advances. Low level of term liabilities in relation to the scale of income and absence of any major capital expenditure plans in the near-to-medium, provides further comfort to the liquidity profile of KL. As on March 31, 2019, KL's has free cash and liquid investments of Rs. 3.2 crore.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade KL's rating if the company demonstrates sustained improvement in its profitability. Specific credit metrics that could lead to upgrade in KL's rating include TD / OPBITDA less than 1 times and DSCR above 3 times on a sustained basis.

**Negative triggers** – Negative pressure on KL's rating could arise if, any decrease in overall profitability or increase in capital expenditure or advances to group companies leads to weakening of the company's liquidity or leverage profile. Specific credit metrics which could lead to downgrade in credit metrics include TD / OPBITDA higher than 1.5 times (excluding advances from KEL) or DSCR below 2.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating takes into account the standalone profile of Kurlon Limited.

## About the company

KL was incorporated in February 1962 as Karnataka Consumer Products Limited by Mr. T Ramesh U Pai. The name of the company was changed to Kurlon Ltd. in 1995. The company is involved in manufacturing rubberised coir, foam and spring mattresses, foam products and home furnishings through its subsidiary, KEL. The mattress and foam products business of KL was transferred to KEL through a business transfer agreement, effective from April 01, 2014. The Group has manufacturing facilities for rubberised coir in Yeswanthpur (Bangalore), Bhubaneswar and Gwalior; polyurethane foam-manufacturing facility at Dabaspeta (Karnataka), Roorkee (Uttarakhand) and Jhagadia (Gujarat); and spring manufacturing facility at Peenya (Bangalore), Jhagadia (Gujarat) and Bhubaneswar.

## Subsidiary profile

KEL was incorporated in October 2011 as a 99.99% subsidiary of KL. In March 2014, KL entered into 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. As consideration for the net assets taken over, KEL issued shares to KL. Under the agreement, all land and buildings (except the Gujarat plant) 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. In October 2015, KEL received a private equity investment of Rs. 90.0 crore from Motilal Oswal Private Equity Investment Advisors.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	121.3	140.8
PAT (Rs. crore)	6.4	14.8
OPBDIT/OI (%)	5.0%	-1.0%
RoCE (%)	7.7%	9.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	9.6	-43.1
Interest Coverage (times)	2.4	-0.8
DSCR	2.4	3.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018			FY2017	
					08-Nov-2019	23-Oct-2018	3-Oct-2017	22-Sep-2017	06-Apr-2017	-	
1	Term Loan	Long Term	17.00	12.1**	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-
2	Unallocated	Long Term	4.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-

Amount in Rs. crore

\*\*As on March 31, 2019.

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Nov 2016	-	Dec 2021	17.0	[ICRA]A (Stable)
NA	Unallocated	-	-	-	4.0	[ICRA]A (Stable)

Source: KL

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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