November 08, 2019

Kurlon Enterprise Limited: Ratings reaffirmed; outlook retained at 'Positive'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	25.0	25.0	[ICRA]A+(Positive); reaffirmed
Non-fund-based facilities	15.0	15.0	[ICRA]A1+; reaffirmed
Unallocated	70.0	70.0	[ICRA]A+(Positive)/[ICRA]A1+; reaffirmed
Total	**110.0**	**110.0**	

**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. The ratings also continue to draw comfort from KEL's diverse product portfolio across categories and price points and widespread distribution network across the country. KEL continues to maintain a strong financial profile characterised by healthy cash accruals and low dependence on external debt, hence leading to comfortable debt protection indicators. As on March 31, 2019, KEL has a gearing of 0.04 times and TD/OPBITDA of 0.1 times.

The ratings, however, are constrained by the moderate sales growth witnessed in FY2019 on the back of slowdown in sales volumes for RC mattress segment, and muted consumer sentiment. The ratings are further constrained by the large dependence on the southern market, though the company is diversifying into other regions by expanding capacity in existing facilities and setting up a greenfield facility in Assam. The profit margins are also exposed to fluctuations in input prices, which witnessed sustained volatility during FY2017 and FY2018 majorly on account of rising TDI (key raw material) prices. Nevertheless, KEL has been able to minimize the impact of such volatility by increasing prices and improving operational efficiency. While the company has been able to maintain its profit margins in the past, it remains vulnerable to steep changes in input costs. The ratings are also restricted by the highly competitive nature of the industry with the presence of other large players and several unorganised players, reducing pricing flexibility.

The Positive outlook on the long-term rating reflects ICRA's opinion that KEL will benefit from its well-established brand value, extensive reach of its strong sales network and strong financial profile. The company's ability to achieve significant growth in revenues while maintaining healthy profitability and capital structure will be a key monitorable.

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.

Diverse product portfolio and strong outreach - The company has a strong network of more than 7,000 dealers, which it plans to expand to increase its geographical base. KEL has products across categories of the mattress segments and price points and its expanding its presence in the home furnishing and furniture segments.

Strong financial profile characterised by healthy profitability and comfortable debt protection indicators – KEL continues to maintain a strong financial profile characterised by generation of healthy profits and low dependence on external debt, hence leading to comfortable debt protection indicators. As on March 31, 2019, KEL has a gearing of 0.04 times and TD/OPBITDA of 0.1 times. Efficient working capital management policies and moderate capital expenditure levels in line with internal accruals generated, have led to low debt outstanding.

Credit challenges

Moderate sales growth - Growth in revenue receipts in FY2019 has been moderate on the back of slowdown in sales volumes for RC mattress segment, and muted consumer sentiment. While there has been growth in volume of foam and spring mattresses sold in FY2019, the average sale realization has declined due to shift in the product mix. The growth outlook for the company will be dependent on improvement in overall consumer sentiment and reduction in replacement life cycle for the company's products.

Geographic concentration - Sales continue to remain concentrated in the southern market, accounting for about 40% of the total sales in FY2019. Nonetheless, the company is diversifying into other regions by increase in output from existing facilities in Gujarat and Uttarakhand and has plans to set-up a new facility in Assam.

Highly competitive industry; vulnerability to raw material price movements - The company faces intense competition as the mattress industry is still dominated by unorganised players that manufacture coir, cotton, foam and low-priced cotton mattresses. The company also faces competition from other leading organised players such as Sheela Foam and Duroflex. KEL's profit margins are exposed to fluctuations in input prices, which witnessed sustained volatility during FY2017 and FY2018 majorly on account of rising TDI (key raw material) prices. Nevertheless, KEL has been able to minimize the impact of such volatility by increasing prices and improving operational efficiency. While the company has been able to maintain its profit margins in the past, it remains vulnerable to steep changes in input costs.

Liquidity position: Strong

KEL's liquidity profile is adequate, supported by comfortable cash flows from operations, sufficient unutilised working capital limits and limited term liabilities. In the near-to-medium term, the company has significant capital expenditure plans towards expansion/setting up of existing/new facilities and deepening of its retail network. However, such plans are moderate in relation to the scale of internal accruals, which are expected to be around Rs. 97 crore for FY2020. Presence of free cash and liquid investments of Rs. 66.5 crore as on March 31, 2019, provides further comfort to the liquidity profile of KEL.

Rating sensitivities

Positive triggers – ICRA could upgrade KEL's rating if the company demonstrates healthy growth in revenue coupled with further improvement in profitability. Specific credit metrics which could lead to an upgrade in KEL's rating include OPBITDA margin higher than 13% on a sustained basis.

Negative triggers – Negative pressure on KEL's rating could arise if significant capex, acquisition or incremental advances to group companies results in increase in leverage. Specific credit metrics which could lead to a downgrade in KEL's rating include TD/OPBITDA higher than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating takes into account the consolidated profile of Kurlon Enterprise Limited and its wholly owned subsidiary, Kurlon Retail Limited, based on the common business and financial linkages between them. ICRA has also considered the impact of the proposed amalgamation of Spring Air Bedding Company (India) Limited with KEL. The merger application is currently pending regulatory approvals.

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 name of the company was changed to Kurlon Ltd. in 1995. 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.

The rubberised coir mattresses form the bulk of the company's consolidated revenue (35% in FY2019), followed by 26% from polyurethane foam products, 19% from foam mattresses and 11% from spring mattresses. 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. The Group has a strong distribution network with 7,000-plus dealers across the country and 1500 exclusive retail stores.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1092.9	1116.3
PAT (Rs. crore)	82.2	73.6
OPBDIT/OI (%)	12.4%	12.0%
RoCE (%)	n.m.	35.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	33.2	27.0
DSCR	25.8	19.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2020)</th><th colspan="6">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding</th><th>Rating</th><th colspan="2">FY2019</th><th colspan="2">FY2018</th><th>FY2017</th></tr>
<tr><th>08-Nov-2019</th><th>29-Oct-2018</th><th>23-Oct-2018</th><th>3-Oct-2017</th><th>22-Sep-2017</th><th>30-Dec-2016</th></tr>
<tr><td>1</td><td>Cash credit</td><td>Long Term</td><td>25.00</td><td>-</td><td>[ICRA]A+ (Positive)</td><td>[ICRA]A+ (Positive)</td><td>[ICRA]A+ (Positive)</td><td>[ICRA]A+ (Stable)</td><td>[ICRA]A+ (Stable)</td><td>[ICRA]A (Stable)</td></tr>
<tr><td>2</td><td>Letter of credit</td><td>Short Term</td><td>15.00</td><td>-</td><td>[ICRA]A1+</td><td>[ICRA]A1+</td><td>[ICRA]A1+</td><td>[ICRA]A1</td><td>[ICRA]A1</td><td>[ICRA]A1</td></tr>
<tr><td>3</td><td>Unallocated facility</td><td>Long Term/ Short Term</td><td>70.00</td><td>-</td><td>[ICRA]A+ (Positive)/[ICRA]A1+</td><td>[ICRA]A+ (Positive)/[ICRA]A1+</td><td>[ICRA]A+ (Positive)/[ICRA]A1+</td><td>[ICRA]A+ (Stable)/ [ICRA]A1</td><td>[ICRA]A+ (Stable)/[ICRA]A1</td><td>[ICRA]A (Stable)/[ICRA]A1</td></tr>
</table>

Amount in Rs. crore

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	25.0	[ICRA]A+ (Positive)
NA	Letter of credit	-	-	-	15.0	[ICRA]A1+
NA	Unallocated	-	-	-	70.0	[ICRA]A+ (Positive)/ [ICRA]A1+

Source: KEL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kurlon Retail Limited	100.00%	Full Consolidation

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About ICRA Limited:

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For more information, visit www.icra.in

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