

February 15, 2022

Kurlon Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - TL	17	17	[ICRA]A (Stable); Reaffirmed
Unallocated	10	10	[ICRA]A (Stable); Reaffirmed
Total	27	27	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation considers the long and established presence of the Kurlon Limited (KL) and its Group concerns in the Indian mattress segment and the Group's position as one of the largest organised players in the market. The Group's products enjoy a strong brand recall, with a large pan-India network of dealers and stores. KL derives significant financial flexibility and dividend income from its majority shareholding in Kurlon Enterprise Limited (KEL, rated [ICRA]A+ with Stable outlook), which is the subsidiary that undertakes majority of the Group's mattress operations.

The rating, however, is constrained by KL's modest scale operations with revenues primarily derived from contract manufacturing, in addition to dividend and lease income from KEL. The rating notes the risks arising from the investments in a new subsidiary, Manipal Natural Extracts Private Limited (MNEPL). KL has invested in the land and building for MNEPL's factory, which has been part funded through a term loan of Rs. 18 crore. In addition, it has provided corporate guarantees for debt facilities availed by MNEPL. The ramp-up in MNEPL's operations and accruals would be a key monitorable. Nevertheless, dividend income, lease rental and interest income from its investments and advances, are expected to remain comfortable to meet all its operational, debt servicing and planned capex/investing requirements. The rating is constrained by the stiff competition in the mattress and home furnishing industry, which may impact the Group's competitive position.

The Stable outlook reflects the established position of the Kurlon Group in mattress industry in India. Further, KL derives strong financial flexibility from its over 85% stake in KEL.

Key rating drivers and their description

Credit strengths

Established track record and strong brand recall in Indian mattress industry – The Kurlon Group has an established presence in the Indian mattress segment as one of the largest organised players in the Indian mattress market at present. The Kurlon Group enjoys strong brand recall, with a large and widespread network of dealers and stores across the country.

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

Credit challenges

Modest scale of operations – KL has a modest scale of operations with income primarily derived from contract manufacturing, in addition to dividend and lease income from KEL.

Risks arising out of the project in subsidiary company – KL has invested in a subsidiary company, MNEPL, which is involved in the business of extraction of chemicals from natural plants and herbs. The total cost of the project is around Rs. 40 crore, out of which Rs. 18 crore has been invested by KL towards the land and building for MNEPL’s factory, which has been part funded through a term loan of Rs. 18 crore. In addition, KL has provided corporate guarantees for the debt facilities availed by MNEPL. The new project has impacted KL’s consolidated debt protection metrics and exposes the Group to significant marketing risks.

Stiff competition in 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: Adequate

KL’s liquidity profile is adequate, supported by dividend, lease rental and interest income from its investments and advances. These sources of funds are expected to remain comfortable to meet all its operational and debt servicing commitments. Further, the company reported cash and equivalents of Rs. 16.70 crore as of December 2021.

Rating sensitivities

Positive factors – ICRA could upgrade KL’s rating if the company demonstrates sustained improvement in its revenues and profitability while maintaining healthy leverage and liquidity position.

Negative factors – Negative pressure on KL’s rating could arise in case of a significant decline in the company’s consolidated revenues and profitability. The rating may also be revised if an increase in its capital expenditure or advances to Group companies weakens its consolidated leverage, liquidity position or debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach- Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating notes the consolidated profile of Kurlon Limited and its wholly-owned subsidiary - MNEPL

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 manufactures rubberised coir, foam and spring mattresses, foam products and home furnishings through its subsidiary, KEL. The company’s mattress and foam products business 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 Dabaspet (Karnataka), Roorkee (Uttarakhand) and Jhagadia (Gujarat), and spring manufacturing facility at Peenya (Bangalore), Jhagadia (Gujarat) and Bhubaneshwar. KL currently holds 85.06% shareholding in KEL.

Key financial indicators – Standalone

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	124	83
PAT (Rs. crore)	10	6
OPBDIT/OI (%)	10.80%	13.24%
PAT/OI (%)	7.80%	7.37%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.51
Total Debt/OPBDIT (times)	4.1	6.55
Interest Coverage (times)	11.9	13.07

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

Status of non- cooperation with previous CRA: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs. crore)	Date & Rating On	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
									February 15, 2022
1	Term Loan	Long Term	17	16	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Unallocated	Long Term	10	7.78	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	

* outstanding as on December 31, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long-term – Unallocated	NA

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March-2022	8.15%	November-2031	17.0	[ICRA]A (Stable)
NA	Unallocated	NA	NA	NA	10.0	[ICRA]A (Stable)

Source: Company

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

Company Name	Ownership	Consolidation Approach
Manipal Natural Extracts Private Limited	100%	Full Consolidation

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