Duroflex Private Limited

November 04, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.00	CARE BBB+; Stable	Assigned
Long Term / Short Term Bank Facilities	212.00	CARE BBB+; Stable / CARE A2	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Duroflex Private Limited (DPL) derives strength from company's track record of nearly six decades in the mattresses and foam industry, well-established brand presence of 'Duroflex' in the South Indian market, backed by a robust dealer and distribution network across the country. The ratings also take cognisance of DPL's efforts to diversify its geographical reach, which has contributed to a sustained increase in its scale of operations, DPL's comfortable financial risk profile, and adequate liquidity.

The above rating strengths are however, partially offset by DPL's modest profitability, which is further vulnerable to volatility in raw material prices and intense competition from both organised and unorganised players.
CARE Ratings Limited (CARE Ratings) also takes cognisance of recovery in DPL's operating margin during last two years ended FY24 (FY refers to the period April 01 to March 31).

Rating sensitivities: Factors likely to lead to rating actions

Positive Sensitivities

- Significant growth in scale of operations along with improvement in Profit before Interest, Lease, Depreciation and Taxes (PBILDT) margin above 6% on a sustained basis
- Improvement in Return on capital employed (ROCE) above 10% on a sustained basis

Negative Sensitivities

- Decline in operating margins below 3.50% on a sustained basis
- Any large size debt funded capital expenditure leading to deterioration in overall gearing above 0.50x on a sustained basis
- Decline in the liquidity cushion below Rs.60 crore available with the company

Analytical approach: Consolidated.
CARE Ratings has taken a consolidated view of DPL and its wholly owned subsidiaries viz. Shivaarna Technofoams Private Limited, Sleepyhead Home Décor Private Limited (SHDPL) and Rem42 Technologies Private Limited, considering their managerial, operational and financial linkages. (Details of subsidiaries is placed in Annexure-6)

Outlook: Stable
Stable outlook reflects CARE Ratings Limited (CARE Ratings) expectations that DPL shall be able to sustain its credit risk profile in medium-term supported by established presence of the brand 'Duroflex' in the organised mattresses segment.

Detailed description of key rating drivers:

Key strengths

Strong brand positioning in South India, with plans for geographical expansion

With nearly six decades of presence in the mattress segment, DPL has established itself as a leading player in South India with a strong brand recall amongst its customers. The group operates under two brands viz. 'Duroflex' and 'Sleepyhead' catering to various consumer needs across different price points. The company has a strong distribution network with over 2000 dealers and distributors nationwide for its mattresses, furniture and accessories segment. Additionally, it has a network of approximately 190 dealers and 100 distributors across country for its foam products.
Apart from the dealer and distribution network, the group has also launched offline experience centres to increase the brand visibility through 68 company-owned company-operated stores (COCOs) across the country.
During FY24, around 31% of gross revenues was derived from DPL's distribution network (PY: 35%), 22% was generated through e-commerce (PY: 21%), 19% through direct dealers (PY:18%), 15% from institutional foam sales (PY:14%), 6% through COCO stores (PY: 5%) and balance through other channels. Furthermore, the contribution from South India has reduced to 65% in FY24, as against 71% in FY22.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Growing scale of operations

DPL's Total Operating Income (TOI) reported a compounded annual growth rate (CAGR) of 27% during the last 5 years to Rs.1095 crore in FY24, compared to Rs.424 crore during FY20. The revenue growth was supported by acquisition of a foam and mattress manufacturing plant in Indore, Madhya Pradesh, in FY21, launch of sale promotion schemes (enhanced discounts) to boost sales through e-commerce channels and its foray in newer geographies. The group also commenced furniture manufacturing and trading division from FY21 onwards. However, mattress segment continued to contribute ~45% - 50% of its total operating income with balance from foam, furniture and accessories division.

Till July 31, 2024 DPL has achieved TOI of ~Rs.355 crore. CARE Ratings expects the TOI to increase in the near term on account of the group's focus on improving its brand visibility, expand its geographical presence and increase in offline experience centres (COCO stores).

Comfortable financial risk profile

DPL's capital structure remains comfortable backed by strong net-worth base and low reliance on external debt to support operations or meet capex requirements. During FY24, the company used funds from private equity investments held in liquid assets to repay its working capital borrowings (including FD backed ODs). As a result, DPL's overall gearing and total outside liabilities to tangible net worth (TOL/ TNW) ratios improved as on FY24 end to 0.30x (PY: 0.72x) and 0.82x (PY: 1.28x) respectively.

Reduction in debt and a significant rise in gross cash accruals also led to improvement in debt coverage metrics, including PBILDT interest coverage and total debt/ Gross cash accruals (TD/GCA) to 5.10x (FY23: 2.67x) and 1.89x (FY23: 9.49x) respectively during FY24.

Long track record of operations

Established in 1963 as a small-sized partnership firm in Alleppey, Kerela, by Late Mr. PC Mathew and Mr. George L Mathew, Duroflex has an established track record of more than six decades in the mattresses industry. While majority of equity is held by the promoter group, two PE funds (Norwest Capital LLC and Lighthouse Fund) hold 33.4% stake in the company. The management of DPL is supported by qualified professionals to look after the day-to-day operations of the company with minimal promoter intervention.

Key weaknesses

Moderate profitability and weak return ratios

DPL's operating margin remained moderate during last two years ended FY24. While DPL reported operating loss in FY22 on account of increased discounts to boost sales, aggressive marketing expenditure to improve its geographical and e-commerce presence along with higher logistics, freight and rental expenses for expansion of COCO stores, DPL's profitability has recovered in FY23 and FY24 at 4.44% and 4.75% respectively. Correspondingly, the group's ROCE also remained weak at around 3.37% in FY24 (FY23: 1.81%). Ability of the company to improve its profitability while expanding geographically shall remain a key monitorable from a credit perspective.

Stiff competition in the industry and vulnerability of profitability to raw material price movements

The prices of key raw materials needed for production of foam, TDI and polyol, are derivatives of crude oil. Hence, its prices remain fluctuating and is governed by market demand and supply conditions. Moreover, considering intense competition in the industry from the organised / unorganised players as well as the new entrants, the company may not be able to pass the increased production costs to its customers, which might significantly impact its profitability margin.

Liquidity: Adequate

DPL's liquidity profile remains adequate marked by sufficient cushion in GCA vis-à-vis its debt repayment obligation, low utilisation of fund-based working capital limits, lean operating cycle and free cash and liquid investment of Rs.101.85 crore as on FY24-end. Average utilisation of FB and NFB limits remained low at 2% and 32% respectively during the trailing 12 months ended July, 2024. The operating cycle and GCA days of the company remained lean at 25 days and 82 days respectively as on FY24-end. DPL reported positive cash flow from operations (CFO) of Rs.42.05 crore as on FY24-end. (FY23: Rs. 77.17 crore)

In near term, the company does not plan any major debt-funded capex and the liquidity available shall be utilised for expansion through offline experience centres (COCO stores) and marketing and other outreach activities of the company.

Applicable criteria

Definition of Default

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Rating Watch

[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)
[Consolidation](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Furniture, Home Furnishing

Incorporated in 1981 by Late Mr. P C Mathew and Mr. George L Mathew, Duroflex Private Limited (DPL) is engaged in manufacturing of rubberised coir, polyurethane foam (PU) and spring mattresses and related accessories like bedsheets, pillows, cushions, comforters, etc. It also manufactures mattresses for some brands on OEM basis. To diversify its revenue base, DPL has also entered furniture manufacturing division from FY21 onwards.
Currently, the company operates six manufacturing facilities in India; three in Hosur (Tamil Nadu), two in Indore (Madhya Pradesh) and one in Karimangalam (Tamil Nadu). On a consolidated basis, the company has peak foam manufacturing capacity of 62,400 MTPA and can produce upto 28,16,400 units of spring and coir mattresses.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1057.07	1095.18
PBILDT	46.96	52.05
PAT	-15.47	11.20
Overall gearing (times)	0.72	0.30
Interest coverage (times)	2.67	5.10

A: Audited; Note: 'the above results are latest financial results available'

Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	992.35	1001.55
PBILDT	46.61	44.81
PAT	-19.08	8.16
Overall gearing (times)	0.55	0.22
Interest coverage (times)	3.31	5.90

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	September, 2026	20.00	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	105.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Letter of credit		-	-	-	107.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-Letter of credit	LT/ST	107.00	CARE BBB+; Stable / CARE A2				
2	Fund-based - LT/ ST-Cash Credit	LT/ST	105.00	CARE BBB+; Stable / CARE A2				
3	Fund-based - LT-Term Loan	LT	20.00	CARE BBB+; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - LT/ ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Annexure-6: List of entities consolidated*

Sr No	Name of the entity	% of DPL's shareholding	Extent of consolidation	Rationale for consolidation	Primary Business activity
1	Shivaarna Technofoams Private Limited (STPL)	100%	Full Consolidation	Subsidiary	Trading and manufacturing of foam and mattresses
2	Rem42 Technologies Private Limited (RTPL)	99.99%	Full Consolidation	Subsidiary	Development of technology improving sleeping patterns of the people
3	Sleepyhead Home Décor Private Limited (SHDPL)	100%	Full Consolidation	Subsidiary	Storage and warehousing services to DPL#

#Trading of foam and mattresses division was amalgamated with DPL during FY24.

*DPL had one more subsidiary till March 31, 2023 viz. Palmspring Mattresses Private Limited (PMPL). During FY24, the board of directors approved a scheme of amalgamation of PMPL and trading division of SHDPL with DPL under section 233 of Companies Act, 2013.
The scheme was approved by the regional director on March 27th, 2024, and the same became effective from March 29, 2024. Pursuant to the scheme, PMPL and trading division of SHDPL was merged with DPL w.e.f. April 01, 2023 i.e. the appointed date.

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Ujjwal Manish Patel Associate Director **CARE Ratings Limited** Phone: 079-40265649 E-mail: ujjwal.patel@careedge.in Vanshika Jain Lead Analyst **CARE Ratings Limited** E-mail: Vanshika.Jain@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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