

Press Release

Southfield Paints Limited

September 11, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 16.14 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 16.14 crore bank facilities of Southfield Paints Limited. The outlook is '**Stable**'.

SPL, incorporated in 1972 is a Bengaluru-based company engaged in manufacturing of liquid paints and powder coatings. The products manufactured by SPL includes Synthetic Enamels, stoving Enamels, Epoxy Paints- Air drying and stoving, P.U. Paints, Conformal Coating AR, High Temperature Paints, chlorinated Rubber paint, general and Industrial primers, putties, surfacers, thinners, Strippable lacquers, Anti-skid and Aluminum paints. The products find application in Aircraft industry, electronics and automobile industry. The company is promoted by Mr. S. S. Hegde, Mrs. Jayanthi Shivaram Hegde and Ms. Vidya Hrthpoorna Rai. The manufacturing unit of the company is located in Malur, Bengaluru which was shifted from Whitefield, Bengaluru. The liquid paint division has been completely transferred and the total installed capacity stood at 9000 kilo liters per annum for the same. However, the shifting and the up gradation of the powder coat division is expected to be completed by August, 2017 and the total installed capacity is expected to be 2400 metric tonnes per annum post commissioning.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SPL is engaged in manufacturing of chemicals and paints for more than four decades leading to established relation with its customers and suppliers. The promoters, Mr. S. S. Hegde, Mrs. Jayanthi Shivaram Hegde and Ms. Vidya Hrthpoorna Rai possess more than four decades of experience in the paint manufacturing industry.

- **Moderate financial risk profile**

SPL's comfortable financial risk profile marked by tangible network of Rs. 11.30 crore as on 31st March, 2016 as against Rs. 10.94 crore in the previous year. The gearing (debt to equity ratio) stood at 1.14 times as on 31st March, 2016 as against 1.35 times in the previous year. The interest coverage ratio stood at 2.33 times for FY 2015-16 as against 2.44 times in the previous year. The total liabilities to tangible network (TOL/TNW) stood at 2.42 times as on 31st March, 2016 as against 2.06 times in the previous year. Further, the company has made significant investment in property located in Kunadapur to the tune of Rs. 11.51 crore which more than the tangible network of the company. SMERA expects the financial risk profile of the company to remain moderate going forward in the absence of any major debt funded capital expenditure plan.

Weaknesses

• **Modest scale of operations in a highly competitive and fragmented industry**

SPL has modest scale of operations inspite of being in the business for more than four decades. The company reported operating income of Rs. 26.49 crore (provisional) for FY 2016-17 as against Rs. 27.65 crore in the previous year. The marginal decline in revenue in FY 2017 is mainly due to shifting of the operations and installation of additional capacity in Malur plant. However, the company has completed the shifting activity is expected to be completed by August, 2017. Further, SPL operates in a highly fragmented and competitive industry with low entry barriers and large numbers of organized and unorganized players which further intensify competition.

• **Customer Concentration Risk**

SPL is exposed to customer concentration risk as it derives around 40.16 percent and 30.33 percent of its total revenue from Hindustan Aeronautics Limited and Rittal India Private Limited respectively for FY 2016-17. However, the risk is mitigated to an extent as SPL has established relations of 30 years with these clients.

• **Working Capital intensive nature of operations**

SPL's operations are working capital intensive evident from high gross current assets (GCA) of 174 days (provisional) for FY 2017 as against 188 days in the previous year. This is due to the elongated receivables which stood at 122 days (provisional) for FY 2017 against 105 days in the previous year. However the average cash credit limit utilisation stood at 65.67 percent for the last six months ended August, 2017.

• **Margins are susceptible to fluctuation in raw material prices and forex rate**

SPL's margins are susceptible to volatility in raw material prices as paint manufacturing involves the mixing of various raw materials in various proportions. The total material cost constituted around 53 percent of the total net sales for FY 2016-17. Around 300 to 400 raw materials are required to manufacture different kinds of paints. The high number of raw materials and finished goods highlights the working capital intensity of the sector. Most of the raw materials are petroleum based. Hence, any hike in the price of petroleum products raises input costs. Further, SPL imports around 42 percent of its raw material requirement from overseas suppliers; hence the profitability of the company is exposed to the fluctuation in the forex rate in the absence of adequate hedging mechanism.

• **Significant investments in property**

The company has made significant investment in property located in Kunadapur to the tune of Rs. 11.51 crore as on date. The investment is around 96 percent of the tangible networth which stood at Rs. 12.05 crore (provisional) as on 31st March, 2017. Further, the investment has been funded by term loan of Rs. 10.75 crore from bank and rest through promoter's fund.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company for arriving at the rating.

Outlook: Stable

SMERA believes SPL will maintain stable outlook in the medium term on the back of established operations and experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenue and profitability while effectively managing its liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the liquidity profile or financial risk profile of the company on account of higher than envisaged debt funded capex or working capital requirements.

About the Rated Entity - Key Financials

For FY 2015-16, SPL has reported profit after tax (PAT) of Rs. 0.36 crore on operating income of Rs. 27.65 crore as compared to profit after tax (PAT) of Rs. 0.31 crore on operating income of Rs. 24.43 crore. The tangible networth stood at Rs. 11.30 crore as against Rs. 10.94 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	30-Sep-2017	0.23	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2023	4.37	SMERA BB / Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2020	4.50	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.54	SMERA BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.50^	SMERA A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+

^Fully Interchangeable with Buyer's Credit of Rs. 1.50 crore.

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