

Press Release

Southfield Paints Limited

January 31, 2020

Rating withdrawn



Total Bank Facilities Rated*	Rs. 16.14 Cr.
Long Term Rating	ACUITE BB (Withdrawn)
Short Term Rating	ACUITE A4+ (withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has withdrawn its long-term rating at '**ACUITE BB**' (read as **ACUITE double B**) and short rating at '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 16.14 crore bank facilities of SOUTHFIELD PAINTS LIMITED (SPL).

The rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating and on account of request from the company and NOC received from the banker.

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 manufacturing unit is located in Malur, Bengaluru. The liquid paint division installed capacity stood at 16800 kilo liters per annum. Powder coat division installed capacity is 1800 metric tons per annum.

Analytical Approach

Acuite has considered standalone financials and business risk profiles of SPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

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 possess more than four decades of experience in the paint manufacturing industry. The company supplies its products to some of the reputed customers namely Hindustan Aeronautical Limited, Bharat Electronics Limited, Bharat Fritz Werner Limited among others. Acuite believes that the company will benefit from the long standing operations and experienced management.

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by modest net worth, moderate gearing (Debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Net worth stood modest at Rs.12.20 crore as on 31 March, 2019 as against Rs.11.97 crore as on 31 March, 2018. Gearing stood moderate at 1.56 times as on 31 March, 2019 as against 1.62 times as on 31 March, 2018. TOL/TNW stood moderate at 2.75 times as on 31 March, 2019 as against 2.87 times as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.85 times and 0.13 times in FY2019. With the expected rental income over the medium term, revenues and cash accruals are expected to improve over the medium term. The same will reflect in improvement in financial risk profile over the medium term.

Weaknesses

• Moderate working capital intensity

Operations of the company are working capital intensive marked by gross current assets at 184 days in FY2019 as against 194 days in FY2018. The same is due to high inventory cycle of around three month's period in FY2019 and FY2018. Further, debtors stood high around 92 days in FY2019. However, it has improved from 107 days in FY2018. Due to high inventory cycle and debtor's cycle, working capital limits are utilized over 90 percent for the last six months through December 2019. Acuite believes that operations are expected to be working capital intensive over the medium term.

• Modest scale of operations

SPL has modest scale of operations in spite of being in the business for more than four decades. The company reported operating income of Rs. 28.98 crore for FY2019 as against Rs. 25.46 crore in FY2018 and Rs.26.49 crore for FY2017. The same is due to the company's operations in a highly fragmented and competitive industry with low entry barriers and large numbers of organized and unorganized players which further intensify competition.

• Margins are susceptible to raw material price fluctuations

SPL's operating margins are fluctuating in the range of 13-15 percent during FY2017-FY2019. The 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 FY2019. 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 20-30 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.

Liquidity position

Liquidity of the company is stretched marked by modest accruals to repayment obligations and working capital intensive operations. Cash accruals of the company stood modest at Rs.2.51 crore against the repayment obligation of Rs.1.48 crore in FY2019. Cash accruals are expected to be moderate in the range of 2.8-6.0 crore against the expected repayment obligations of Rs. 1.6-2.7 crore over the medium term. Operations are working capital intensive with GCA days of 184 days in FY2019, led to utilisation of bank lines over 90 percent for the last six months through December 2019. Current ratio is moderate at 3.47 times in FY2019. Cash and bank balances stood at Rs.0.05 in FY2019.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	28.98	25.46
PAT	Rs. Cr.	0.18	0.19
PAT Margin	(%)	0.62	0.75
Total Debt/Tangible Net Worth	Times	1.56	1.62
PBDIT/Interest	Times	2.85	3.39

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Nov-2018	Term Loan	Long Term	0.23	ACUITE BB (Issuer not co-operating)
	Term Loan	Long Term	4.37	ACUITE BB (Issuer not co-operating)
	Term Loan	Long Term	4.50	ACUITE BB (Issuer not co-operating)
	Cash Credit	Long Term	4.00	ACUITE BB (Issuer not co-operating)
	Proposed Long Term Loan	Long Term	0.54	ACUITE BB (Issuer not co-operating)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Issuer not co-operating)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Issuer not co-operating)
11-Sep-2017	Term Loan	Long Term	0.23	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	4.37	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	4.50	ACUITE BB / Stable (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BB / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.54	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)

***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 Loan	Not Applicable	Not Applicable	Not Applicable	0.23	ACUITE BB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.37	ACUITE BB (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB (Withdrawn)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BB (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Withdrawn)

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