

Press Release

SONALAC PAINTS AND COATINGS LIMITED

28 February, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 9.50 crore bank facilities of SONALAC PAINTS AND COATINGS LIMITED. The outlook is '**Stable**'.

The Chandigarh-based Sonalac Paints & Coating Limited (SPCL) incorporated in 1988 is led by Mr. Radhey Shyam Garg, Mr. Bobby Garg, Ms Kiran Garg and Mr. Rupesh Garg. The company is engaged in the manufacturing of dry and liquid decorative paints. The manufacturing facilities are located at Jammu & Kashmir and Rajasthan with installed capacity of 73500 tonnes of dry paint and 1050 tonnes of liquid paint per year. The actual production is 40 percent of the installed capacity.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

SPCL was incorporated in 1988. The company is led by Mr Radhe Shyam Garg, Mrs Kiran Garg and others who have experience of nearly three decades in the paint industry.

- **Diversified product portfolio**

SPCL manufactures a wide range of dry, decorative paints - interior and exterior emulsions, plastic emulsions, cement paints, acrylic distemper among others.

- **Reputed clientele**

Over the years the company has been catering to Kansai Nerolac Paints Limited and Berger Paints India Limited which has helped SPCL benefit from repeat orders.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs. 6.30 crore as on 31 March, 2017 compared to Rs. 5.30 crore as on 31 March, 2016. The adjusted gearing stood at 1.66 times as on 31 March, 2017 compared to 2.18 times in the previous year. The Interest Coverage ratio stood at 2.54 times and Debt Service Coverage Ratio (DSCR) at 1.98 times as on 31 March, 2017. The Total Outside Liabilities/Total Net worth stood at 2.55 times as on 31 March, 2017 as against 2.57 times in the previous year.

Client concentration risk: Since the company's top three customers account for 90 percent of the total revenue, it is exposed to client concentration risk.

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 202 days in FY2017 as against 214 days in FY2016. The GCA days are mainly dominated by high inventory days of 106

in FY2017 and 131 in FY2016. The cash credit facility availed by the company is almost fully utilised. SMERA believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• **Competitive and fragmented industry**

SPCL operates in a highly competitive and fragmented industry characterised by a large number of organised and unorganised players thereby limiting its bargaining power.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of SPCL to arrive at the rating.

Outlook: Stable

SMERA believes that SPCL will maintain a 'Stable' outlook over the medium term on account of its long track record of operations. The outlook may be revised to 'Positive' if the company registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely the outlook will be revised to 'Negative' in case of significant decline in revenue and profitability or if the company takes on higher than expected debt funded capex leading to strain on its debt servicing ability.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	35.70	28.71	17.82
EBITDA	Rs. Cr.	3.68	2.95	2.23
PAT	Rs. Cr.	1.01	0.35	0.09
EBITDA Margin	(%)	10.31	10.26	12.53
PAT Margin	(%)	2.83	1.21	0.53
ROCE	(%)	18.34	14.76	21.26
Total Debt/Tangible Net Worth	Times	1.70	2.20	2.38
PBDIT/Interest	Times	2.54	1.55	1.37
Total Debt/PBDIT	Times	2.92	4.10	5.27
Gross Current Assets (Days)	Days	202	214	321

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

Not Applicable

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	Date of	Coupon Rate	Maturity	Size of the Issue	Ratings/Outlook
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Facilities	Issuance		Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	SMERA BBB- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB- / Stable

Contacts

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ABOUT SMERA

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