

Press Release

Sonalac Paints And Coatings Limited

16 April, 2018



Rating Reaffirmed And Assigned

Total Bank Facilities Rated*	Rs. 13.31 Cr. (Enhanced from Rs. 9.50 Cr.)
Long Term Rating	SMERA BBB- /Stable (Reaffirmed)
Short Term Rating	SMERA A3 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) on the Rs. 9.19 crore and assigned short-term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 4.12 crore bank facilities of Sonalac Paints And Coatings Limited. The outlook is '**Stable**'.

Chandigarh based Sonalac Paints & Coating Limited incorporated in the year 1988 as a public limited company managed by Mr. Radhey Shyam Garg Mr. Bobby Garg Ms. Kiran Garg and Mr. Rupesh Garg. Company is engaged in manufacturing of various dry and liquid decorative paints like interior and exterior emulsions plastic emulsions cement paints acrylic distemper dry wall putty cement primer etc. The manufacturing facility of SPCL is located in Jammu & Kashmir and Rajasthan with an installed capacity of 73500 tonnes of dry paint and 1050 tonnes of liquid paint per year however actual production is 40% of the installed capacity.

Key Rating Drivers

Strengths

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

Sonalac Paints & Coatings Limited (SPCL) incorporated in 1988. The company is managed by Garg family led by Mr Radhe Shyam Garg, Mrs Kiran Garg who have an experience of nearly three decades in the paint industry.

- **Diversified product portfolio**

SPCL is engaged in manufacturing of variety of dry and decorative paints including exterior emulsions, interior emulsions, plastic emulsions, cement paints, acrylic distemper, dry distemper, dry wall putty, acrylic wall putty, cement primer etc.

- **Reputed Clientele**

Over the years company has been able to attain the trust of reputed clients mainly Kansai Nerolac Paints Limited and Berger Paints India Limited which helped SPCL to get repeat orders. However there is high client concentration risk with top 3 customers accounting for 90% of the total revenue.

Weaknesses

- **Moderate financial risk profile**

The company's 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 company's adjusted gearing stood at 1.66 times as on 31 March, 2017 as against 2.18 times in the previous year. The Interest Coverage ratio stood at 2.54 times and Debt Service Coverage Ratio (DSCR) stood 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 10 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 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 SPCL will maintain a 'Stable' business risk profile in the medium term on account of its long track record of operations. The outlook may be revised to 'Positive' if the firm 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 company's revenue and profitability or in case of higher than expected debt funded working capital requirement 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-February-2018	Cash Credit	Long Term	6.50	SMERA BBB- / Stable (Assigned)
	Secured Overdraft	Long Term	3.00	SMERA BBB- / Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	SMERA BBB- / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.69	SMERA BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.12	SMERA BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A3 (Assigned)

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ABOUT SMERA

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