Press Release

Shalimar Paints Limited

January 25, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 207.00 crore*
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 207.00 crore bank facilities of Shalimar Paints Limited (hereinafter referred to as "SPL"). The outlook is **'Stable'**.

Rationale for ratings assigned

The ratings assigned derive comfort from long track record of operations, established brand name along with dealer distribution network, extensive experience of management and track record of need-based infusion of funds by the promoters. The ratings also reflect improvement in capacity utilization of the manufacturing unit in Tamil Nadu and reinstatement of Nashik unit, thereby improving business prospects for the company. These rating strengths are partially offset by operating as well as cash losses in FY2018, FY2019 and FY2020, working capital intensive nature of operations, exposure of company to volatility in raw material prices and intense competition in the industry.

The operations of the company were impacted as the manufacturing unit in Howrah caught fire in 2014 and the operations in that unit are suspended since then. Subsequently in November 2016, another such incident happened in its Nashik plant. However, the unit at Nashik was recommissioned in August 2019. Furthermore, the operating in unit located in Tamil Nadu commenced its operations in 2017. With the improvement in capacity utilization in Tamil Nadu's plant over the years and reinstatement of Nashik plant, Acuité is expecting further improvement in operational performance over the medium term.

In addition to this, owing to muted demand and temporary shutdown of operations in the months of March and April 2020 due to nationwide lockdown post COVID-19 outbreak, SPL's performance was impacted in Q1FY2021. Further, the prevailing slowdown in the construction activities coupled with subdued discretionary spending resulted in a restricted operating income in Q2FY2021 as compared to the corresponding quarter in the previous year. However, revenues are expected to rebound from third quarter onwards with expected revival in demand.

The financial risk profile of the company is average on account of continued losses resulting in weak debt protection metrics. This is however, to an extent mitigated by strong net worth and healthy leverage levels. Moreover, liquidity position has improved over the years and is supported by need based infusion of funds by the promoters.

About the Company

SPL was incorporated in the year 1902 and is the pioneer in the Indian Paints industry. The company is engaged in the manufacturing and marketing of decorative paints and industrial coatings and have four manufacturing plants located strategically at Howrah (Kolkata), Sikandrabad (Uttar Pradesh), Gummidipoondi (Tamil Nadu) and Nashik (Maharashtra). Operations at Howrah unit are suspended since 2014 due to a fire which damaged the unit. Therefore, currently SPL has three operational units with a total installed capacity of 69,000 KLPA.

In 1989, the company was acquired by O.P. Jindal Group and Hongkong based S. S. Jhunjhunwala group. Currently, SPL is a part of Ratan Jindal faction of O.P. Jindal group and S. S. Jhunjhunwala group, both the promoter groups together holding 53.10 per cent of the shares. It is listed on National Stock Exchange as well as Bombay Stock Exchange since 1972.

Analytical Approach

Acuité has considered the standalone view of business and financial risk profiles of SPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations, established brand name and experienced management**

Incorporated in the year 1902, SPL has a vintage of more than a century and is the pioneer in the domestic paints industry. The company has established brands such as 'Superlac Advance', 'Superlac Premium Hi Gloss Enamel' and 'Signature Luxury Emulsion' among others, spread across various product segments.

SPL forms part of Delhi-based Ratan Jindal faction of O.P. Jindal group and Hongkong-based S.S. Jhunjhunwala Group, since 1989. Both the promoter groups together own 53.10 per cent of the shareholding in the company. Currently, the operations of the company are led by Mr. Ashok Kumar Gupta who has extensive experience in holding leadership positions at various reputed organizations such as APL Apollo Tubes Limited, SAIL and Jindal Stainless Limited, among others. Other members of the top management also have extensive experience in varied line of businesses. The senior management team is ably supported by a strong line of mid-level managers.

Acuité believes that SPL will continue to benefit from its long track record of operations and experienced management in order to develop relationships with its customers and suppliers.

- **Established dealer distribution network across the country**

SPL operates through its strategically located manufacturing units in four different regions across the country, of which three are currently operational viz. Nashik, Sikandrabad and Chennai. The company also has extensive sales and distribution network with more than 5,300 active dealers, 33 sales depots and 3 regional distribution centres, which has helped SPL in establishing nation-wide presence, especially in the retail-based decorative segment. While the industrial paints segment derives its demand primarily from the business clients and the portfolio consists various reputed organizations.

- **Augmented business risk profile**

The operational performance of the company has improved over the past three years marked by improvement in scale of operations with a total operating income of Rs. 343.85 crore in FY2020 as against Rs. 287.62 crore in FY2019 and Rs. 271.19 crore in FY2018, thereby resulting in a growth at a three-year CAGR of 12.60 per cent. This improvement is on account of improved realisations across the product segments. It is further supported by commencement of operations in Tamil Nadu unit in 2017 and recommissioning of Nashik unit in August 2019.

The operations were impacted and SPL has been incurring operating as well cash losses in the previous years, primarily on account of higher fixed costs since FY2017. However, the company has reported improvement in operational performance when it achieved break-even at EBITDA level in Q1FY2020, followed by Q2FY2020 & Q3FY2020. In H1FY2021, despite challenges like muted demand, temporary shutdown of operations in the months of March and April 2020, prevailing slowdown in the construction activities and subdued discretionary spending, SPL managed to book an operating income of Rs. 121.80 crore as against Rs. 167.39 crore during the corresponding period in the previous year, indicating signs of revival in demand. SPL has registered an EBITDA of Rs. 4.50 crore in Q2FY2021.

Acuité believes that the operational performance of SPL will continue to improve over the medium term on the back of improved capacity utilization of the recently commissioned/ re-commissioned manufacturing plants as well as expected improvement in profitability and will remain a key rating sensitivity.

- **Need-based funding support by promoters coupled with improved liquidity position**

The company in FY2019 raised funds by way of rights issue to support its incremental working capital requirements and liquidity position. At first, SPL raised Rs. 49.73 crore in April 2018 and then further an amount equalling to Rs. 200.87 crore was raised through another rights issue in January 2019. The proceeds from the rights issue have been utilized for supporting its long-term working capital requirements, capital expenditure required for reinstating Nashik's plant along with setting up of regional distribution centre at Nashik and general corporate purposes.

Furthermore, in April 2019, Hind Strategic Investments (one of the promoters) has converted its ECB loan into equity shares by way of preferential allotment.

The infusion of funds in the previous two years has resulted in the healthy net worth of around Rs. 250.94 crore as on March 31, 2020. Leverage levels also stood healthy marked by gearing of 0.48 times as on March 31, 2020 and total outside liabilities to tangible net worth (TOL/TNW) level of 0.86 times as on March 31, 2020.

With the improvement in profitability as evident from the results of Q2FY2021, company is expecting to achieve cash break-even in the upcoming quarters too. Improvement in liquidity position is further supported by receipt of insurance claim to the extent of Rs. 14.00 crore by the end of FY2020 and an amount of ~Rs. 8.00 crore is expected to be received in the short-term.

Acuité believes that the financial risk profile and liquidity profile of SPL will further improve over the medium term on the back of improvement in profitability.

Weaknesses

- **Working capital intensive nature of operations**

SPL has improved yet intensive working capital requirements marked by gross current assets (GCA) of 206 days in FY2020 improved from 334 days in FY2019. This improvement is marked by reduced debtors' collection period of 76 days in FY2020 as against 126 days in FY2019 as the company has written-off non-recoverable amount of old debtors in FY2020. On the contrary, inventory holding period has increased to 84 days in FY2020 as against 75 days in FY2019. Working capital requirements to an extent met by stretched creditors' payment period. At the same time, fund-based limits are utilized at an average of 85.49 per cent during previous eight months till November, 2020 and while the non-fund based limits are utilized at an average of ~31 per cent during the same period, thereby providing sufficient liquidity buffer.

Acuité expects the working capital operations of SPL to improve yet remain intensive over the medium term on account of level of inventory to be maintained and the credit given to its customers.

- **Exposure to intense competition and susceptibility to volatility in raw material prices**

The organised paint industry is dominated by a few large players and SPL also face competition from strong regional players, especially in mass-market products.

While the company has the flexibility to pass on rise in prices to customers in the domestic decorative business, this is limited in the industrial paints segment. Given that material cost accounts for around 61.50 per cent of total cost of sales, which is to an extent hedged by way of crude-based derivatives, hence making the profitability in the industrial paints segment partly susceptible to volatility in raw material prices. Hence, operating margins would remain susceptible to the fluctuations in raw material prices.

Rating Sensitivity

- Improvement in profitability metrics.
- Substantial improvement in working capital management.
- Further improvement in liquidity position.
- Decline in scale of operations

Material Covenants

None

Liquidity: Adequate

SPL has adequate liquidity profile marked by infusion of funds by way of rights issue coupled with conversion of ECB loan into equity. Liquidity position is further supported by expected insurance claim to the extent of Rs. 8.00 crore during H2FY2021. Rs. 2.35 crore remains unutilized as on 30th September, 2020 out of the proceeds of rights issue. The fund-based working capital limits of SPL remains utilised at ~85.49 per cent over the last eight months till November, 2020 while the non-fund based limit remains utilized at ~31 per cent during the same period, thereby providing sufficient liquidity buffer. Average annual maturing debt obligations stood at ~Rs. 1.86 crore and there are no proposed capital expenditure plans. The company maintains unencumbered cash and bank balances of Rs. 4.62 crore as on 30th September, 2020. In addition to this, SPL has availed the Covid-19 moratorium under the Regulatory Package announced by Reserve Bank of India (RBI). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in profitability and receipt of the expected insurance claim.

Outlook: Stable

Acuité believes that SPL will maintain a 'Stable' outlook and will continue to derive benefits over the medium term due to extensive experience of promoters, long-track record of operations and established brand name. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	343.85	287.62
PAT	Rs. Cr.	(37.88)	(81.54)
PAT Margin	(%)	(11.02)	(28.35)
Total Debt/Tangible Net Worth	Times	0.48	0.53
PBDIT/Interest	Times	(1.27)	(3.02)

Status of non-cooperation with other CRA

None

Any other information
Not Applicable

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to previous 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB-/ Stable (Assigned)
Mortgage Loan	28-05-2019	12.95%	15-06-2030	4.88	ACUITE BBB-/ Stable (Assigned)
Term Loan	18-12-2015	13.00%	01-08-2027	15.11	ACUITE BBB-/ Stable (Assigned)
Proposed Bank facilities	Not Applicable	Not Applicable	Not Applicable	4.51	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	37.50	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Assigned)
Letter of Credit#	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)

Bank Guarantee#	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.75	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A3 (Assigned)

Bank facilities with SBI, HDFC, PNB and Union Bank are under consortium with SBI being the lead banker.
#Outstanding under NFB limits not to exceed Rs. 15.00 crore at any point of time and all limits are interchangeable.

Contacts

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.