

Press Release

Shalimar Paints Limited

December 30, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	129.22	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	77.78	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	207.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 207 Cr bank facilities of Shalimar Paints Limited (SPL). The outlook is revised from 'stable' to '**negative**'.

Rationale for rating reaffirmation and change in outlook:

The reaffirmation of rating factors established brand name, strong promoter profile and the strategic stake sale to infra.market improving the liquidity position of the company has been taken into consideration to arrive at the rating. The rating is underpinned by working capital intensive operations, susceptibility of profitability to volatility in raw material prices and strong competition from organized and unorganized players in the industry.

The outlook is revised from 'stable' to 'negative' as the company is continuing to incur EBITDA losses resulting into erosion of networth and Acuite's expectation of continuation of operating losses on account of fluctuating RM prices.

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). 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 39.92 per cent of the shares. Further Hella Infra Market Private Limited holds 24.89% shares. It is listed on National Stock Exchange as well as Bombay Stock Exchange since 1972.

Analytical Approach

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

Key Rating Drivers

Strengths

Established brand name in the paints industry

Diversified brand portfolio spread across various segments with major brands, 'Superlac Hi-Gloss Enamel' & 'G.P. Synthetic Enamel' in decorative enamels, 'Xtra Exterior Emulsion' in exterior wall finishes, 'Master Emulsion' & 'No.1 Silk Emulsion' in interior wall finishes and 'No.1' (specifically catering to the rural demand) in acrylic distemper. SPL has vintage of 118+ years into the paint industry and is the first paint company of India.

Strong promoter profile

SPL is a part of O.P. Jindal group of companies. The group was formed by Late Mr. O.P. Jindal, a first-generation entrepreneur and is one of the large industrial groups in India having varied business interests in steel, mining, power, industrial gases and ports vehicles. Currently, 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 39.92 per cent of the shareholding in the company through various group companies. After the strategic stake sale, 24.99% of the shareholding now lies with Hella Infra Market Private Limited.

Strategic stake sale coupled with improved liquidity position

The company had raised funds to the tune of Rs. 270 Cr. in March 2022 by way of issuance of equity shares of Rs. 215 Crore (24.8% of total equity) and optionally convertible debentures amounting to Rs. 55 Crore to Hella Infra Market Private Limited (HIMPL). Further to fuel the next phase of growth during next couple of years HIMPL have committed an investment of Rs. 150 Crore through the issue of warrants. SPL has received 25% of the subscription amount i.e. Rs. 37.50 Crore towards warrant allotted on preferential basis. The balance 75% shall be payable at the time of allotment of equity shares pursuant to exercise of rights attached to the warrants to subscribe the equity shares. The issue of shares and OCD has resulted into improved liquidity position as is apparent from the improved cash and bank position of the company, which grew from 3.45 Cr in FY21 to Rs. 164 Cr. in FY22 against which the company had a total debt of 144.23 Cr. making the company net debt negative in FY22.

Improved operations supported by better demand and realization

The company showed improvement in its operating performance as reflected from the turnover of Rs. 358.10 cr. as against Rs. 325.56 Cr. in FY21. The improvement in operating performance attributed to better demand and realization. The company has already achieved a turnover of Rs. 109.90 Cr. in Q1FY23 i.e. 4.1% growth from the previous quarter and 68.64% from last year same quarter. Further, the company has achieved turnover of Rs. 110.27 Cr. in Q2FY23 which is 22% growth from Q2FY22 however more or less the same as compared to previous quarter. The operating losses of the company narrowed in Q1FY23 and stood at -1.63% from -17.27% in Q1FY22. Further the operating losses increased a bit in Q2FY23 as compared to Q1FY23. The company is projecting a growth in topline by 35% in FY23. The projection is backed by better realization in decorative paints, support from its new promoter group infra.market's dealer network that will improve the dealer network resulting into higher market penetration and demand.

Moderate utilization of working capital limits

The fund-based working capital limits are utilized at an average of 37.49 per cent, while the non-fund based limits are utilized at an average of ~58.41 per cent in past 11 months through August 22, giving sufficient liquidity buffer in the form of unutilized limits.

Weaknesses

Average Financial Risk Profile

SPL has average financial risk profile marked by average debt protection metrics marked by interest coverage ratio (ICR) of (0.79) times and debt-service-coverage-ratio (DSCR) of (0.60) times for FY22. This is to an extent mitigated by strong net worth and healthy leverage. The company's net worth stood at Rs. 352.10 crore as on March 31, 2022 as against Rs. 202.39 crore as on March 31, 2021. Gearing levels (debt-to-equity) improved to 0.41 times as on March 31, 2022 as against 0.64 times as on March 31, 2021. Total outside liabilities to total net worth (TOL/TNW) also stood healthy at 0.78 times in FY22. Gearing improved in FY2022 on account of raising of funds through rights issue.

Working capital intensive business operations

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SPL has working capital intensive nature of operations as is apparent from gross current assets of 240 days in FY22, which deteriorated from 213 days in FY21. The inventory and debtor days of the company has seen improvement in FY22 however, it still remained high and stood at 93 days and 80 days respectively.

Susceptibility of profitability margin to volatility in raw material prices

Given that raw material cost accounts for around 70% of total cost of sales with notional exposure in crude based derivatives profitability in the non-decorative segment is partly susceptible to volatility in raw material prices. Hence operating margins would remain susceptible to the fluctuations in raw material prices as can be seen from the company's past performance and it's performance in Q2FY23 wherein the operating losses increased due to increase in RM prices and hence price fluctuation will remain a key monitorable.

Strong competition from organised and unorganised players in the industry

A few large players dominate the organised paint industry. Despite this, paint manufacturers face competition from strong regional players, especially in mass-market products. Consequently, while paint manufacturers have the flexibility to pass on cost increases, their ability to absorb cost benefits and thereby increase margins is limited.

ESG Factors Relevant for Rating

Chemical companies, including specialty and commodity chemical producers, face environmental risks arising from their exposure to waste, pollution, and toxicity. They are subject to environmental regulations as they release NOx, Sox, VOCs and other hazardous emissions. The industry faces major material risk from treatment and disposal of waste and waste water and maintain water quality standards. The key social risks for chemical companies evolve around health & safety of labors, product safety and maintain product quality. The industry has to manage risks associated with community development and supply chain procurement. Other material issues include employee training, employee development and freedom of association for trade unions. Overall, chemicals industry faces governance risk, as it is usually spread out geographically and demographically. Companies' governance structure, ownership and control, shareholders' rights are key issues. Additionally, regulations with respect to bribery, corruption and money laundering are crucial for efficient working of the industry. SPL being one of the oldest paint manufacturers in the country do have proper waste treatment and is adhering to the environmental norms. The company's Nashik plant is certified for Quality Management System (ISO9001:2015), Environment Management System (ISO 14001:2015) and Occupational Health & Safety Management System (ISO 45001:2018). Further, Sikandrabad Plant of the Company is certified for Quality Management System (ISO 9001:2015). Company further has NABL (National Accreditation Board for Testing and Calibration Laboratories) accreditation.

Rating Sensitivities

- Substantial improvement in operating revenue resulting into company turning net cash positive
- Improvement in profitability position of the company
- Improvement in debt protection matrix of the company
- Improvement in working capital cycle of the company
- Any deterioration in operating performance resulting into losses
- Any further deterioration in working capital cycle resulting into liquidity stress

Material covenants

None

Liquidity Position Adequate

The company's liquidity profile has improved and is at adequate level as reflected by the unencumbered cash of Rs. 165 Cr. as on 31st March 22. The fund-based working capital limits are utilized at an average of 37.49 per cent, while the non-fund based limits are utilized at an average of ~58.41 per cent in past 11 months through August 22, giving sufficient liquidity buffer in the form of unutilized limits. The company is currently at zero net debt.

Outlook: Negative

Acuité believes that SPL will continue to derive benefits over the medium term due to extensive experience of promoters, long-track record of operations and established brand

name however the company will continue incurring losses in near term and hence the outlook is 'Negative'. The outlook may be revised to 'Stable' in case the company registers higher-than-expected growth in its revenue and profitability and is able to turn around the operations. Conversely, the rating may be downgraded in case the company registers lower-than expected growth in revenues and incur further EBITDA losses resulting into deterioration in the company's financial risk profile or significant elongation in the working capital cycle exerting pressure on the liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	358.10	325.56
PAT	Rs. Cr.	(63.85)	(49.50)
PAT Margin	(%)	(17.83)	(15.20)
Total Debt/Tangible Net Worth	Times	0.41	0.64
PBDIT/Interest	Times	(0.79)	0.58

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Oct	Letter of Credit	Short Term	37.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Working Capital Demand Loan	Long Term	2.89	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Upgraded from ACUITE A4+)
	Working Capital Demand Loan	Long Term	7.57	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Working Capital Demand Loan	Long Term	2.03	ACUITE BBB- Stable (Upgraded from ACUITE BB+)

2022	Letter of Credit	Short Term	6.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Letter of Credit	Short Term	7.75	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	13.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Working Capital Demand Loan	Long Term	1.23	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	60.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Proposed Bank Facility	Short Term	0.78	ACUITE A3 (Upgraded from ACUITE A4+)
13 Jul 2022	Letter of Credit	Short Term	7.75	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	1.20	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	10.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	12.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	15.11	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	22.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	0.31	ACUITE A4+ (Downgraded and Issuer not co-operating*)
		Short		ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Term	6.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	60.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	37.50	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	8.50	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.88	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	0.75	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Facility	Short Term	0.31	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	60.00	ACUITE BBB- Stable (Reaffirmed)

12 Feb 2021	Proposed Bank Facility	Long Term	4.51	ACUITE BBB- (Withdrawn)
	Term Loan	Long Term	4.88	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	7.75	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Withdrawn)
	Letter of Credit	Short Term	37.50	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.20	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	15.11	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	7.75	ACUITE A3 (Assigned)
	Term Loan	Long Term	15.11	ACUITE BBB- Stable (Assigned)
25 Jan 2021	Bank Guarantee	Short Term	10.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	60.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.88	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	4.51	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	37.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	8.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.75	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Reaffirmed
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.50	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A3 Reaffirmed
Punjab								ACUITE A3

National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.75	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.78	ACUITE A3 Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.23	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2.89	ACUITE BBB- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	7.57	ACUITE BBB- Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	2.03	ACUITE BBB- Negative Reaffirmed Stable to Negative

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Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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