



Press Release
SHALIMAR PAINTS LIMITED
November 20, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	129.22	ACUITE BB+ Stable Downgraded Negative to Stable	-
Bank Loan Ratings	77.78	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	207.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BB+**' (read as **ACUITE Double B plus**) and the short term rating from '**ACUITE A3**' (read as **ACUITE A three**) to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 207 Cr bank facilities of Shalimar Paints Limited (SPL). The outlook is revised from '**Negative**' to '**Stable**'.

Rationale for rating downgrade:

The rating downgrade is majorly on the account of consistent deterioration in profitability despite growth in revenue from operations and the company continues to incur losses due to higher employee, supplychain and marketing expenses. Furthermore, the profitability of the company is expected to further deteriorate in the near term which might result into further networth erosion and deterioration in coverage indicators. The rating is also constrained on account of stretched working capital of the company as apparent from GCA days of 200 days as on 31 March 2023. However, the rating continues to draw comfort from the company's established brand name with reputed clientele, strong promoter profile and the strategic stake sale to infra.market.

Acuite has further taken cognizance of the open offer floated by Hella Infra Market Private Limited to acquire 2,17,64,907 Equity Shares from the eligible shareholders of Shalimar Paints Limited at a price of Rs. 165 per Equity Share aggregating to a total consideration of up to Rs. 359,12,09,655 payable in cash. The progress of the same will remain a key monitorable and will be closely tracked.

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. Jhunjunwala group. Currently, SPL is a part of Ratan Jindal faction of O.P. Jindal group and S. S. Jhunjunwala 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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.

Improved operations supported by better demand and realization

The company showed improvement in its operating performance as reflected from the turnover of Rs. 485.55 cr. in FY23 as against Rs. 358.10 Cr. in FY22 showing a growth of 35.59%. The improvement in operating performance is attributed to better marketing strategy adopted by the company with more addition of dealers and improving its painter network which contributed to Rs. 47.63 Cr. of sale i.e. 13% contribution to the net sales. Further, the sales improved due to increase of products in water based umbrella, launch of new products in waterproofing range & increased number of tinting machines. The company has already achieved a turnover of Rs. 244.77 Cr. in H1FY24 i.e. a growth from corresponding period of the last fiscal. The company is projecting a topline of ~ Rs. 550 Cr. in FY24. The projection is backed by better realization in decorative paints, new product launch and better dealer network.

Weaknesses

Significant deterioration in profitability with operating losses

In FY23 & H1FY24 due to aggressive growth policy of the company the other expenses, supplychain, marketing and employee cost as % of revenue has increased impacting the EBITDA margin. The EBITDA margin of the company further deteriorated in H1FY24 and remained in the negative zone and stood at -8.51% as compared to -3.03% in FY23. The EBITDA margin in Q2FY24 stood at -16.88% as compared to -4.28% in Q2FY23 and -3.68% in Q1FY24.

Below Average Financial Risk Profile

SPL has below average financial risk profile marked by average debt protection metrics marked by negative interest coverage ratio (ICR) of (0.47) times and debt-service-coverage-ratio (DSCR) of (0.24) times for FY23. This is to an extent mitigated by strong net worth and healthy leverage. The company's net worth saw a dip and stood at Rs. 333.30 crore as on March 31, 2023 as against Rs. 352.10 crore as on March 31, 2022. The Networth of the company saw a further dip in H1FY24 and stood at Rs. 297.91 Cr. on account of losses incurred by the company. Gearing levels (debt-to-equity) saw a minuscule dip and move to 0.42 times as on March 31, 2023 as against 0.41 times as on March 31, 2022. Total outside liabilities to total net worth (TOL/TNW) also stood healthy at 0.80 times in FY23.

Working capital intensive business operations

SPL has working capital intensive nature of operations as is apparent from gross current assets of 200 days in FY23 albeit improvement from previous year. The inventory days of the company has seen improvement in FY23 and debtor days remained almost same however, it still remained high and stood at 83 days and 81 days respectively. Albeit intensive working capital the fund-based working capital limits remained unutilized with debit balance in past 9 months ending May 23 while the non-fund based limits was utilized at an average of ~43.14% per cent in past 9 months through May 23 giving a respite on liquidity front.

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. Though the share of revenue from decorative segment is going down and hence is a mitigating factor here.

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, chemical 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

All Covenants

Not Applicable

Liquidity Position Adequate

The company's liquidity profile has remained at adequate level as reflected by the unencumbered cash of Rs.106.29 Cr. as on 31st March 23. The fund-based working capital limits of Rs. 102.5 Cr. remained unutilized with debit balance in past 9 months ending May 23 while the non-fund based limits of Rs. 77 Cr. was utilized at an average of ~43.14% per cent in past 9 months through May 23, giving sufficient liquidity buffer in the form of unutilized limits. Further, the company has available commitment of Rs. 112.5 cr. in the form of warrants from infra.market. The comfortable leverage position, available unutilized bank limits and fund commitment from infra.market gives the company sufficient liquidity for any working capital requirement or to fulfil capex requirement without compromising on the capital structure of the company.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	485.55	358.19
PAT	Rs. Cr.	(36.10)	(59.97)
PAT Margin	(%)	(7.44)	(16.74)
Total Debt/Tangible Net Worth	Times	0.42	0.50
PBDIT/Interest	Times	(0.47)	(1.12)

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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
24 Aug 2023	Proposed Bank Facility	Long Term	0.78	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.23	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.89	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.03	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	8.50	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	37.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	7.75	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	7.57	ACUITE BBB- Negative (Reaffirmed)
30 Dec 2022	Cash Credit	Long Term	60.00	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.23	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	7.57	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	7.75	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.75	ACUITE A3 (Reaffirmed)
		Long		

	Cash Credit	Term	5.00	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	8.50	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.03	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	37.50	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.89	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.78	ACUITE A3 (Reaffirmed)
06 Oct 2022	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+)
	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+)
	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*)

13 Jul 2022	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*)
	Letter of Credit	Short 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*)
12 Feb 2021	Cash Credit	Long Term	60.00	ACUITE BBB- Stable (Reaffirmed)
	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)
	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	22.00	ACUITE BBB- Stable (Assigned)

25 Jan 2021	Cash Credit	Term 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)
	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 A4+ Downgraded
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A4+ Downgraded
IDFC First Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB+ Stable Downgraded Negative to Stable
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BB+ Stable Downgraded Negative to Stable
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE BB+ Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE BB+ Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.50	ACUITE A4+ Downgraded
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A4+ Downgraded
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Downgraded
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.75	ACUITE A4+ Downgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.78	ACUITE A4+ Downgraded
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.00	ACUITE BB+ Stable Downgraded Negative to Stable
								ACUITE BB+

Union Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.23	Stable Downgraded Negative to Stable
Union Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	2.89	ACUITE BB+ Stable Downgraded Negative to Stable
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	7.57	ACUITE BB+ Stable Downgraded Negative to Stable
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	2.03	ACUITE BB+ Stable Downgraded Negative to Stable

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About Acuité Ratings & Research

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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