

Press Release

Indocem Colours Private Limited

November 21, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ B+**' (read as **ACUITE B' Plus'**) on the Rs. 15.00 Cr. bank facilities of Indocem Colours Private Limited (ICPL). The outlook is '**Stable**'.

Rating Rationale:

The rating assigned reflects ICPL's relevant experience of the management in the paint manufacturing. The rating further takes into account the company's product profile of industry solvent paint sales and regular wall paint sales. However, the rating is constrained by the losses recorded by the ICPL over the past years, which in-turn impacts the networth of the company and financial risk profile. Further, the revenues of the company have dipped in FY 2022 as compared to FY 2021. And it does also factor the higher reliance on bank borrowings with an average utilization of more than 95% for the 7 months ended October 2022.

About the Company

Incorporated in 2014, M/s. Indocem Colours Private Limited (ICPL) is a Karnataka based company, currently headed by Mr. Ketan Shantilal Shah, Mr. Nama Narayana Prasad, Mrs. Jaishree Ketan Shah and Mrs. Nama Nagajyothi. The company is engaged in manufacturing of Paints/ varnishes and other allied products such as manufacturing of all kinds of Paints, Pigments, Distempers and Inks, floor coatings, wood coatings, and glass coatings.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of ICPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management and Established Track Record of Operations

ICPL has setup the manufacturing plant near Bangalore, Karnataka. The Company is primarily manufacturing three types of paint – Water base, Enamel base and Powder base. The paint industry is pegged to be Rs. 20 lakh crores, out of which Rs. 70 thousand crores is under the organized sector and the balance being unorganized sector. For the year ended March 2022,

the production capacity at which the company is operating is about 50%. The promoters of the Company have been in the paint business since more than 12-15 years, thus bearing relevant experience. Further, the Company supplies paint in multiple sectors such as the real estate sector, industrial sector for machinery paint etc. ICPL has its presence in several states across India. The Company is supplying to customers in Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Telangana, Maharashtra, Goa, Gujarat etc. through agents in these states. Also, the Company is in process of opening its first branch in Coimbatore, Tamil Nadu for OTC sales directly with the customers. In an attempt to opportunize on prevailing demand, the Company is in process of increasing its Industry solvent paint manufacturing to increase its revenue.

Acuite believes that ICPL may continue to benefit from its established track record and experience of the management along with geographic segmentation.

Weaknesses

Weak Profitability Margins

The Company's EBITDA margins stood at 4.87% in FY 2022, which was 7.28% in FY 2021, with a deterioration of about 241 basis points. The PAT Margin was negative at (2.64)% in FY 2022 as against 0.09% in FY 2021. The marginal profits in FY 2021 and losses in FY 2022 have impacted the networth of the company and the financial risk profile.

Below Average Financial Risk Profile

The Company has recorded conservative revenues and posted losses in FY 2022, which has drastically impacted the financial risk profile. The financial risk profile of the company stood below average with declining net worth, below average leverage and coverage indicators. The tangible networth of the company stood at Rs 0.95 Cr in FY 2022 as against Rs 1.85 Cr in FY 2021. The Debt - Equity ratio stood at 16.27 times as on 31 March, 2022 as against 8.28 times as on 31 March, 2021. The Total Outside Liabilities / Total Tangible Networth ratio stood at 27.62 times as on 31 March, 2022 as against 14.10 times as on 31 March, 2021. Debt - EBITDA ratio deteriorated to 9.08 times in FY 2022 which was 5.57 times in FY 2021. Interest coverage ratio deteriorated as compared to previous year, though, remained above 1 - 1.14 times in FY 2022 as against 1.89 times in FY 2021. Debt Service Coverage Ratio remained below 1 at 0.28 times as on March 31, 2022, which was 0.72 times as on March 31, 2021. NCA/TD ratio was 0.02 times in FY 2022 as against 0.08 times in FY 2021.

Acuite believes that financial risk profile of ICPL is a key rating sensitivity.

Working Capital Intensive Operations The Company's working capital operations are intensive with the GCA Days being 225 as on March 31, 2022, as against 210 days as on March 31, 2021. The Inventory days were recorded at 106 days as on March 31, 2022, as against 109 days as on March 31, 2021. Further, the debtor days have deteriorated to 118 days in FY 2022, as against 104 days in FY 2021, whereas the creditor days have reduced to 103 days in FY 2022 as against 183 days in FY 2021. The reduction in creditor days along with increase in debtor days has resultantly impacted the working capital operations further.

Acuite believes that working capital operations may continue to remain intensive considering the nature of business and higher dependence on short term borrowings.

Rating Sensitivities

- Further deterioration in financial risk profile
- Elongation in Working Capital Cycle
- Improvement in scale of operations and profitability margins

Material covenants

None

Liquidity Position

Stretched

The liquidity profile of the company remains stretched as the dip in revenues has impacted its ability to generate cash. The Company is generating insufficient net cash accruals to service

its debt obligations. The Company is generating Net Cash Accruals of Rs. 0.25 crores in FY 2022 and Rs. 1.28 crores in FY 2021 as against maturing debt obligations of Rs. 5.00 crores in FY 2022 and Rs. 4.71 crores in FY 2021. Thus, the DSCR has been below 1.00 in FY 2022, as well as, FY 2021. Further, the NCA/TD ratio has deteriorated with shrinking net cash accruals. The Current Ratio of ICPL was 1.37 times in FY 2022 as against 1.45 times in FY 2021. Further, the company has high reliance on short term bank borrowings with an average utilization of more than 95% for 7 months ended October 2022.

Outlook: Stable

Acuité believes the outlook on ICPL will remain 'Stable' over the medium term backed by its long track record of operations and opportuning on industry solvent paint sales. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operation along with improvement in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further deterioration in profitability, financial risk profile and liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	34.19	37.86
PAT	Rs. Cr.	(0.90)	0.03
PAT Margin	(%)	(2.64)	0.09
Total Debt/Tangible Net Worth	Times	16.27	8.28
PBDIT/Interest	Times	1.14	1.89

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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.45	ACUITE B+ Stable Assigned
Kotak Mahindra Bank	Not Applicable	Covid Emergency Line.	Mar 13 2021 12:00AM	8.00	Jul 1 2024 12:00AM	Simple	1.30	ACUITE B+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.48	ACUITE B+ Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Sep 6 2021 12:00AM	8.30	Sep 5 2026 12:00AM	Simple	0.26	ACUITE B+ Stable Assigned
Karnataka State Financial Corporation	Not Applicable	Term Loan	Nov 22 2016 12:00AM	Not available	Not available	Simple	0.85	ACUITE B+ Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Apr 25 2022 12:00AM	7.80	Apr 10 2027 12:00AM	Simple	0.34	ACUITE B+ Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.32	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

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