

## Shalimar Paints Limited

April 06, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	129.99	CARE BBB-; Stable (Triple B Minus; Outlook: Stable )	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	10.75	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three )	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable / A Four Plus)
Short Term Bank Facilities	66.25	CARE A3 (A Three )	Revised from CARE A4+ (A Four Plus)
<b>Total Bank Facilities</b>	<b>206.99</b> <b>(Rs. Two Hundred</b> <b>Six Crore and</b> <b>Ninety-Nine Lakhs</b> <b>Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Shalimar Paints Limited (SPL) factors in the significant fund infusion by Hella Infra Market Private Limited (Hella) and promoter's group in the company which shall boost the liquidity position, provide growth capital and improve financial risk profile of SPL over the medium term. The improved liquidity position and increase its reach and distribution network through Hella is expected to improve the operating margins of the company going forward on account of expected improvement in capacity utilization leading to better apportionment of fixed cost.

The ratings continue to derive strength from SPL's long track record of operations and its experienced management, established brand name of the company's products and presence across different locations. The ratings also factor in the satisfactory capital structure albeit weak coverage indicators in FY21 (refers to period April 01 to March 31) and 9MFY22.

The ratings, however, continue to remain constrained by working capital-intensive nature of operations and sharp decline in operating and cash profits despite growth reported in total operating income in 9MFY22 (refers to period April 01 to December 31). The ratings further continue to remain constrained by the vulnerability of margins to volatility in raw material prices, high competition in paint industry and limited pricing flexibility of the company.

### Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Effectively utilizing funds received in the company thereby improving operating performance and overall financial risk profile of the company
- Improvement in scale of operations with topline growth above 20% from current levels on a sustained basis and reporting positive EBIDTA and cash profits while effectively managing raw material price volatility on a sustained basis.
- Ramping up operations at Nasik and Chennai plant
- Company's ability to effectively manage its working capital requirements

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any higher than envisaged debt funded capex undertaken by the company
- Inability to improve overall capacity utilization levels and ramping up operations at Nasik and Chennai Plant
- Deterioration in scale of operations with total operating income reported below Rs. 300 crore and sustainable losses at operating level.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Significant fund infusion of providing boost to liquidity position

The company has received funds aggregating Rs. 270 crores during February 2022 including fresh equity allotment of Rs. 215 crores and allotment of 9% Optionally Convertible Debentures (OCDs) amounting to Rs. 55 crores from Hella Infra Market Private Limited. Additionally, Rs. 150 crores will be infused as Share Warrants over the next 18 months. The funds infusion has strengthened the liquidity position of the company and shall further be utilized for working capital requirements, paying off debts and future capex requirements. The strategic partnership with Hella shall provide growth in capital and boost the liquidity position and will also enables SPL to increase its reach and distribution network which is expected to improve the operating margins of the company going forward on account of expected improvement in capacity utilization leading to better apportionment of fixed cost.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Long track record of SPL with experienced management**

SPL was incorporated in year 1902, since then the company continued to expand its operations across India by setting up facilities across different locations – Howrah, Nasik (West), Sikandrabad (North) and Chennai (South), thereby increasing the aggregate production capacity through various units. The company has a long-established track record of over 100 years in the paints industry. The Managing Director of the company; Mr. Ashok Kumar Gupta is having more than three decades of experience with various companies such as SAIL, JSL, Jindal Industries, Surya Roshni, Arcelor Mittal and APL Apollo Tubed Limited (APL) and has been instrumental in turnaround and growth of these companies especially JSL and APL. Mr. Abhyuday Jindal and Mr. Souvik Pulakesh Sengupta (promoter- Hella Infra Market Pvt Ltd) have also come on board as independent directors for providing strategic guidance to make SPL a self- sustainable and profitable entity.

### **Satisfactory capital structure albeit weak coverage indicators**

The capital structure of the company is satisfactory with low long- term debt of Rs. 31.23 crore and strong tangible net worth base of Rs. 173.15 crore as on March 31, 2021, which shall further be strengthened with funds inflow via equity allotment to Infra.market for aggregate of Rs. 270 crores apart from issue of share warrants for Rs. 150 crore. The said infusion will be used for supporting the business operations, working capital requirements and capex requirements of the company over the next 2 to 3 years. Overall gearing stood comfortable at 0.98x as on March 31, 2021 (PY: 0.67x) and interest coverage in FY21 stood low at 0.23x only though improved from negative 1.66x in FY20. Further Total Debt/GCA stood at negative 16.78x in FY21 compared to negative 3.32x in FY20.

### **Established brand name of the company's products**

The company largely operates in two major segments namely 'Decorative' and 'Industrial' segment. Decorative paint segment mainly caters to domestic, office and other building purposes while Industrial paint segment caters to protective coating sector, product finish, range of marine paints including antifouling pain. The major brands of the decorative segment are 'Superlac', 'G.P. Synthetic', 'Super Shaktiman', 'Xtra Exterior Emulsion', 'Master Emulsion' & 'No.1 Silk Emulsion' etc. Industrial paints are primarily used for beautifying and protecting the structure from deterioration through corrosion.

### **Established dealer network and manufacturing facilities across different locations**

SPL has strategically located manufacturing facilities across four zones: Nasik (West), Sikandrabad (North), Howrah (Southwest) and Chennai (South). Further, the company has wide distribution network of more than 5,300 dealers, 32 sales depots spread across 3 regional distribution centers. The sales in the decorative segment are mostly retail, made through dealers. In the industrial segment, most of the sales are made to original equipment manufacturers (OEMs)/institutional clients as per their specifications.

### **Reputed clientele base of SPL**

The company has reputed corporate clients in the industrial paint segment including both public sector and private sector enterprises. The major clients in the industrial segment are Jindal Saw Limited, Jindal Steel & Power Ltd., JSW Steel, Offshore Infrastructures Limited, Nayara Energy Limited etc.

### **Key Rating Weaknesses**

#### **Sharp decline in operating profitability despite growth reported in total operating income in 9MFY22**

The profitability margins have been consistently low or negative with PBILDT margin reported at 1.36% in FY21 (PY: Negative 9.54%) and further reported operating loss of 7.75% during 9MFY22 compared to operating profit of 2.67% in 9MFY21 on account of high cost of materials consumed despite the ~20% price hike in finished products compared to 9MFY21. On account of constrained liquidity, the company was not able to procure raw material on back-to-back basis which caused price difference. The prices of key raw materials have increased by more than 50% on the back of steep inflationary trend and sharp increase in global commodity prices. The company had to absorb few costs internally which also affected the margins. Nonetheless, the company is now focusing on diversifying its product mix within the industrial and decorative segment into premium emulsions, which is expected to reduce the impact of increase in raw material costs and command better margins.

#### **Working capital intensive operations**

The operations of the company are working capital intensive with operating cycle of 75 days in FY21, though the same improved from 84 days in FY20 on account of improved collections period and stretched creditor period. The Average creditors period increased to 116 days in FY21 from 92 days in FY20 while the average collection period improved to 83 days in FY21 (PY: 89 days). The average inventory period continued to remain high in FY21 due to large number of stock keeping units at various outlets and large requirement of raw materials for manufacturing of paints. Current ratio also stood low at 0.81x in FY21 compared to 0.84x in FY20 primarily on account of stretched creditors payment. The average utilization of fund-based limits for the past twelve months ending January 31, 2022 stood high at 94%. Average non-fund-based utilization remained moderate for past eleven months ending February 28, 2022 at 45.15%.

#### **Vulnerability to volatility in raw material prices and limited pricing flexibility**

Despite the fragmented nature of the organized paint industry, medium to large players face competition from strong regional players, especially in mass-market products. Consequently, while paint manufacturers have adequate flexibility to pass on the increase in cost, their ability to increase the margin is restricted. Going forward, SPL's ability to report steady operating margins and effectively managing the volatility in raw material prices shall be a key rating monitorable.

### Liquidity: Strong

Liquidity is marked strong with Rs. 420 crore infusion through equity allotment, OCDs and share warrants out of which Rs. 270 crores have already been received by the company in the month of February 2022 providing adequate cover for meeting the scheduled debt obligations and to meet exigencies in future, if any. The average utilization of fund-based limits for the past twelve months ending January 2022 stood high at 93.79%, which has now reduced to Nil with the proceeds of equity infusion. Average non-fund-based utilization remained moderate for past eleven months ending February 2022 at 45.15%.

**Analytical approach:** Standalone

### Applicable Criteria

[CARE's policy on default recognition](#)

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

Shalimar Paints Limited (SPL) incorporated in year 1902, belongs to Delhi-based Ratan Jindal faction of the O.P. Jindal group and Mr. Girish Jhunjhunwala, a Hongkong based businessman. Mr. Jhunjhunwala and Mr. Jindal, through various group companies. SPL is engaged in manufacturing a wide range of paints in both decorative and industrial paint segments. The company has four manufacturing facilities located at Howrah, Nasik, Sikandrabad and Chennai.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	344.78	326.39	255.43
PBILDT	(32.91)	4.45	(19.80)
PAT	(37.88)	(49.50)	(51.25)
Overall gearing (times)	0.67	0.98	Not Available
Interest coverage (times)	(1.66)	0.23	(1.20)

A: Audited, UA: Unaudited, 9M: Refers to the period April 01 to December 31

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	107.50	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	66.25	CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	10.75	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	June 2030	22.49	CARE BBB-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	107.50	CARE BBB-; Stable	-	-	1)CARE BB+; Stable (12-Mar-21)	1)CARE BB+; Positive (30-Dec-19)
2	Non-fund-based - ST-Letter of credit	ST	66.25	CARE A3	-	-	1)CARE A4+ (12-Mar-21)	1)CARE A4+ (30-Dec-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	10.75	CARE BBB-; Stable / CARE A3	-	-	1)CARE BB+; Stable / CARE A4+ (12-Mar-21)	1)CARE BB+; Positive / CARE A4+ (30-Dec-19)
4	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (30-Dec-19)
5	Fund-based - LT-Term Loan	LT	22.49	CARE BBB-; Stable	-	-	1)CARE BB+; Stable (12-Mar-21)	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA****Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About CARE Ratings:

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