Shalimar Paints Limited
March 12, 2021

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	26.82	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	102.50 (Reduced from 110.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
Long Term / Short Term Bank Facilities	13.75 (Reduced from 20.75)	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable/ A Four Plus)	Reaffirmed; Outlook revised from Positive
Short Term Bank Facilities	63.92 (Reduced from 76.25)	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**206.99 (Rs. Two Hundred Six Crore and Ninety-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shalimar Paints Limited (SPL) continue to remain constrained by the working capital-intensive nature of operation, higher reliance on external borrowings led by stretched liquidity position due to lower cash accruals, exposure to volatility in raw material prices and high competition in paint industry. The ratings continue to factor in operational loss and cash losses reported by the company in FY20 (refers to period April 01 to March 31). The ratings also take into account slowdown in business operation during current fiscal due to impact of COVID 19 pandemic in Q1FY21. However, the ratings derive strength from experienced promoters, long track record of the company, established brand and dealer network across the country and improvement in operational performance marked by company reporting operating profit during 9MFY21(refers to period: April 01 to December 31) and cash profit in Q2FY21 (refers to July 01 to September 30) and Q3FY21 (refers to October 01 to December 31). The ratings also take into consideration of recommissiong of Nasik plant during September, 2019 and subsequent improvement in capacity utilization of the same and the company's comfortable capital structure backed by sizable fund infusion in the past by way of rights issues.

Rating Sensitivities

Positive:

- Ability to report improvement in income and profitability and resultantly ROCE of 12% on sustained basis.
- Improvement in interest coverage above 2 times and total debt/PBILDT below 3 times on sustained basis.
- Improvement in liquidity position.

Negative:

- Decline in income and profitability margins or any further write downs from receivables.
- Increase in collection period and resultant weakening of liquidity position.

Outlook: Stable

The revision in outlook from 'positive' to 'stable' reflects lower than envisaged operating performance of the company as reflected in losses reported during FY20 albeit it has reported improvement in performance in Q2 and Q3 of FY21. Nonetheless, CARE expects the company's operating performance to remain lower than previously envisaged due to which outlook has been revised to stable.

Detailed description of the key rating drivers

Key Rating Weaknesses

Net loss and cash loss in FY20 and 9MFY21: SPL have reported net loss and cash loss of Rs. 37.88 crore and Rs.45.01 crore respectively during FY20 despite increase in total operating income from Rs.289.55 crore in FY19 to Rs. 344.78 crore in FY20. This is on an account of under realisation of fixed overhead expenses due to underutilisation of manufacturing units due to subdued demand in FY20 and, also due to write off from receivables. During 9MFY21, the operations of the company had been impacted in Q1FY21 on an account of COVID-19. This led to subdued operational and financial performance resulting in company reporting net loss and cash loss of Rs.21.06 crore and Rs.6.16 crore respectively in 9MFY21.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Working capital intensive nature of operation: The operating cycles of the company remained at 84 days in FY20 against 93 days in FY19. This is on an account of decrease in collection period from 128 days in FY19 to 89 days in FY20 on account of write- off of receivables. The average inventory period continued to remain at similar level at 87 days due to large number of Stock Keeping Units at various outlets and requirements of raw materials for manufacturing of paints. The average collection period has also reduced to 92 days in FY20 as against 122 days in FY19. The company has higher reliance on external borrowings with high utilization of fund-based limits owing to limited cash accruals.

Volatility in raw material prices: The major raw materials are organic acids/chemicals, solvents, oils, pigments and packaging materials the prices of which are generally volatile. Raw material cost constituted around 57% of total cost of sales in FY19 (55% in FY19). While the company generally passes on the adverse movement in raw material prices to consumers, there is a time lag which impacts the margins.

Impact of COVID-19 on business operations: The manufacturing facilities of the company remained closed from March 23, 2020 to May 19, 2020 on an account of nationwide lockdown imposed by the Government of India. The company resumed its operations gradually from May 20, 2020. Further, the company's operational and financial performance were impacted during the period. The company reported total revenue of Rs.44.93 crore during Q1FY21 against Rs.84.08 crore during Q4FY20 (Rs.85.25 crore in Q1FY20). Further, the company had also availed moratorium on interest and principle payment from banks for the period of March –September 2020.

Intense competition: The company faces intense competition from established players in the organized sector considering its significantly smaller scale as compared to these players. However, SPL has an established brand name in the industrial paints segment which is expected to be a key focus area. Further, in view of stricter competition in the metro cities and high marketing costs associated with selling in these markets, the company focuses on the tier II and tier III cities to market its products.

Key Rating Strengths

Long track record of SPL: Incorporated in 1902, the company has a track record of more than a century. The promoters of SPL are Delhi based Ratan Jindal faction of the O. P. Jindal group and Mr. Girish Jhunjhunwala – a Hongkong based businessman. The O.P. Jindal group is one of the large industrial groups of India having interest mainly in steel and steel related products. Mr. Jhunjhunwala is engaged in real estate and hospitality industry in Hong Kong and Singapore.

Established brands: SPL has a diversified brand portfolio catering to various segments. The major brands are 'Superlac Hi-Gloss Enamel' & 'G.P. Synthetic Enamel' in decorative enamels, 'Super Shaktiman', '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.

Multi location presence with established dealer network across the country: SPL has strategically located manufacturing facilities (Nasik, Sikandrabad and Chennai) and has nine regional offices, three regional distribution centres, 32 depots and a network of around 5300+ active distributers. 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. The company has reputed corporate clients in the industrial paint segment including both public sector and private sector enterprises.

Improving operational performance: The total operating income of SPL improved to Rs.344.78 crore during FY20 (PY: Rs 289.55 crore), registering y-o-y growth of 19.38%. The same is on an account of recommissioning of Nashik plant and increase in sales level in both industrial and decorative segment. However, SPL has reported operational loss and cash loss of Rs 32.91 crore (PY: loss of Rs.59.90 crore) and Rs.45.01 crore (PY: loss of Rs.100.37 crore) respectively on an account of under realization of fixed overheads.

Positive gross cash accruals in Q2FY21 and Q3FY21: The company has witnessed improvement in operational performance in Q2FY21 and Q3FY21. SPL has reported total operating income of Rs.76.81 crore and Rs.92.52 crore in Q2FY21 and Q3FY21 respectively, registering q-o-q growth of 20.45%. In line with increase in operating income, PBILDT has also improved from Rs.4.72 crore in Q2FY21 to Rs.5.88 crore in Q3FY21. The company has reported cash accrual of Rs.0.07 crore and Rs.0.97 crore in Q2FY21 and Q3FY21 respectively. Going forward, sustenance of improvement in operating performance shall remain a key monitorable.

Healthy capital structure: The overall gearing of the company remained at 0.48x as on March 31, 2020 against 0.53x as on March 31, 2019 mainly on an account of preferential allotment of equity shares through conversion of ECB loan of Rs.5.53 crore during Q1FY20. This resulted in reduction in long term debt with simultaneous increase in equity share capital and securities premium. However, on account of weak operational performance, SPL reported losses at PBILDT level, impacting debt coverage indicators.

Stretched Liquidity: The current ratio reduced to 0.84x as on March 31, 2020 (PY: 01.10x) on account of decline in cash and cash equivalents from Rs.90.88 crore as on March 31, 2019 to Rs.4.51 crore as on March 31, 2020. Cash and cash equivalents increased from Rs 19.49 cr as on March 31, 2018 to Rs 91.24 cr as on March 31, 2019 on account of unutilized amount of rights issue that was done on January 04, 2019. However, the same was utilized during FY20 and balance unutilized amount of Rs.4.25. The average month end utilization of fund-based limits for the past twelve months ending November, 2020 stood high at 80.74%. Average month end non-fund based utilization remained low for past twelve months ending November, 2020 at 37.44%. The company has loan repayment of Rs.1.86 crore during current fiscal. Further, the company had also availed moratorium on interest and principle payment from banks for the period of March –September 2020 and has received insurance claim of Rs.9.91 crore in current fiscal w.r.t Nashik plant.

Analytical approach: Standalone

Applicable criteria –
[Rating Outlook and Credit Watch](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology - Manufacturing Companies](#)
[Financial ratios-Non-Financial Sector](#)
[Liquidity analysis -Non-Financial Sector](#)
[Criteria for Short Term Instruments](#)

About the Company

SPL, incorporated in 1902, belongs to Delhi-based Ratan Jindal faction of the O.P. Jindal group and Mr. Girish Jhunjhnuwala, a Hongkong based businessman. Mr. Jhunjhnuwala and Mr. Jindal, through various group companies, currently own 52.52% of the equity in the company post rights issue.

SPL is engaged in manufacturing a wide range of paints in both decorative and industrial paint segments. The company has three manufacturing facilities at Nasik, Sikandrabad and Chennai. It also had a unit in Howrah where operations are suspended due to a fire which damaged the unit in July, 2014.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	289.55	344.78
PBILDT	-59.90	-32.91
PAT	-81.54	-37.88
Overall gearing (times)	0.59	0.56
Interest coverage (times)	NM	NM

A: Audited; *NM- not meaningful

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 facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
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	-	-	-	102.50	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	63.92	CARE A4+
Non-fund-based - LT/ ST-BG/LC	-	-	-	13.75	CARE BB+; Stable / CARE A4+
Fund-based - LT-Term Loan	-	-	June 2030	26.82	CARE BB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	102.50	CARE BB+; Stable	-	1)CARE BB+; Positive (30-Dec-19)	1)CARE BB+; Positive (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE B; Negative (12-Jul-17)
2.	Non-fund-based - ST-Letter of credit	ST	63.92	CARE A4+	-	1)CARE A4+ (30-Dec-19)	1)CARE A4+ (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE D

								(12-Jul-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	13.75	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Positive / CARE A4+ (30-Dec-19)	1)CARE BB+; Positive / CARE A4+ (22-Feb-19)	1)CARE D / CARE D (07-Mar-18) 2)CARE B; Negative / CARE A4 (12-Jul-17)
4.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (30-Dec-19)	1)Withdrawn (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE B; Negative (13-Jul-17)
5.	Fund-based - LT-Term Loan	LT	26.82	CARE BB+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

Sr. No.	Name of the 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 4: Complexity level of various instruments rated for this Company

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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