

Shalimar Paints Limited (Revised)

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	134.49 (Reduced from 146.42)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	10.75	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	60.92	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Shalimar Paints Limited (SPL) continue to derive strength from the significant fund infusion by Hella Infra Market Private Limited (Hella) and promoter's group in the company boosting the liquidity position and improvement in financial risk profile over the medium term. The improved liquidity position, increased market reach through Hella and improved product mix through increasing water-based products is expected to improve the operating margins of the company going forward.

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, presence across different locations and satisfactory capital structure albeit weak coverage indicators in FY22 (refers to period April 01 to March 31).. The ratings also take cognizance of the improvement in scale of operations and reduction in losses during 9MFY23 (refers to period April 01 to December 31). The ratings, however, continue to remain constrained by working capital-intensive nature of operations and vulnerability of margins to volatility in raw material prices derived from crude prices, high competition in paint industry and limited pricing flexibility of the company and project risk.

Rating sensitivities: Factors likely to lead to rating actions
Positive factors

- Ability to turnaround operations with total operating income above Rs. 500 crores and PBILDT margins above 6% on a sustained basis.
- Effectively utilizing funds received in the company thereby improving operating performance and overall financial risk profile of the company.

Negative factors

- Any higher than envisaged debt funded capex undertaken adversely impacting the liquidity position and financial risk profile of 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 below Rs. 300 crores and sustainable losses at operating level in quarterly intervals and annually.

Analytical approach: Standalone
Outlook: Stable

CARE expects reduction in operating losses and reporting of positive PBILDT margins basis the improving product mix with increasing proportion of water- based products and increasing customer reach through strategic association with Hella.

Key strengths
Significant fund infusion

The company has raised Rs. 215 crores as fresh equity capital, Rs. 55 crores in form of 9% optionally convertible debentures and Rs. 150 crores in form of share warrants, out of which SPL has already received funds aggregating Rs. 307.50 crores and remaining Rs. 112.50 crores shall be received within 18 months from allotment.

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 will contribute in providing access to wider customer base and better products visibility of SPL. Going forward, effective utilization of funds in order to improve operating performance and overall financial risk profile of the company shall be a key monitorable.

¹Complete definition of the ratings assigned are available at 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 poor coverage indicators

The capital structure of the company is satisfactory with strong net worth base of Rs. 352.10 crores as on March 31, 2022 strengthened from recent round of funds infusion through private placement and partially used towards reducing working capital outstanding, debt repayments and general business requirements. Overall gearing stood comfortable at 0.53 times as on March 31, 2022 improved from 0.84 times as on March 31, 2021, however coverage indicators remained poor in tandem with subdued profitability as reflected negative coverage indicators.

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 paint. 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 6,000 dealers, 32 sales depots spread across 3 regional distribution centres. 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 and Nayara Energy Limited among others.

Key weaknesses

Working capital intensive operations

The operating cycle of the company improved from 75 days in FY21 to 72 days in FY22 on account of improved collections and inventory holding period. The average creditor days remains stretched and stood at 103 days in FY22 (PY: 116 days), on the other hand average collection period improved to 79 days in FY22 from 83 days in FY21. The average inventory also remains high at 96 days in FY22 (PY: 108 days) owing to large number of SKUs (Stock Keeping Units) at various outlets and large requirement of raw materials (about 320 types) for manufacturing of paints. The average utilization of fund-based limits for the past twelve months ending January 2022 stood high at 93.79%. Average non-fund-based utilization remained moderate for past eleven months ending February 2022 at 45.15%.

Sharp decline in profitability during FY22 albeit improvement reported in 9MFY23

During the year FY22, SPL reported growth of 9.91% in topline to Rs. 358.10 crores over Rs. 325.81 crores in FY21, the growth was primarily derived from increase in selling prices of industrial paints as volumes remained in similar range. However, profitability margins are susceptible to raw material and crude price fluctuation reported at negative 6.27% in FY22 moderated from 1.19% in FY21 due to the rising raw material cost and high-cost inventory consumed during the year as oil prices have witnessed a sharp rise in the past two years, inflationary cost pressures continued to weigh on margins as the inflated RM prices could not be completely passed on due to intense competition from branded and non- branded players in the market.

SPL has achieved healthy growth in topline reported at Rs. 349.65 crores in 9MFY23 with PBILDT margin of negative 2.49% improved from FY22 level.

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.

Project Risk

SPL is planning to increase the production capacity of existing plants. CAPEX requirement in FY24 and FY25 is for aggregate Rs. 200 to 250 crores which shall be funded through 65 to 70% debt and remaining from surplus liquidity available with company. Debt tie is not done yet and the capex will be undertaken from FY24 and onwards.

Environment, social, and governance (ESG) risks

The paint (chemical) sector has a significant impact on the environment due to VOC'S & Waste Generation. The sector's social impact is characterized by hazards leading to higher focus on Environment, health & safety -EHS and the impact on local community given the nature of its operation. Shalimar Paints Ltd has continuously focused on mitigating its risks through reduction in factory level losses by optimization of formulation, reduction in processing time, upgradation of measuring devices & minimization of waste generation. The company also has a CSR policy focussing on eradicating hunger, poverty and promoting education including special education and employment, gender equality, empowering women etc. Shalimar Paints Ltd.'s governance profile is marked with more than 50% independent directors and presence of robust internal control systems and processes.

Liquidity: Adequate

Liquidity is marked adequate with buffer available in the form of unutilized working capital lines of ~98% to the tune of Rs. 96 crores (approx.) along with cash and cash equivalents of close to Rs. 66 crores [largely maintained in form of cash & bank balance of Rs. 1.08 crores, FDOD of Rs. 30 crores (out of which Rs. 11.02 crores is utilised) and free FDRs of Rs. 30 crores] as on December 31, 2022 providing adequate cover for meeting the scheduled debt obligations and to meet exigencies in future, if any. Further the company has scheduled debt repayment of Rs. 15.87 crores in FY23 which shall be paid out of surplus funds lying with company out of which close to Rs. 11 crores have already been repaid till December 2022. SPL shall also receive Rs. 112.50 crores (75% funds proceeds of share warrants) in FY24.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

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.

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Paints

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	325.81	358.10	349.65
PBILDT	3.88	-22.45	-8.72
PAT	-49.50	-63.85	-26.50
Overall gearing (times)	0.84	0.53	Not Available
Interest coverage (times)	0.20	-1.01	-0.72

A: Audited, UA: Unaudited, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	102.50	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	28-02-2026	31.99	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	10.75	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Forward Contract	-	-	-	-	0.67	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	-	60.25	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	102.50	CARE BBB-; Stable	1)CARE BBB-; Stable (07-Jun-22) 2)CARE BBB-; Stable (06-Apr-22)	-	1)CARE BB+; Stable (12-Mar-21)	1)CARE BB+; Positive (30-Dec-19)
2	Non-fund-based - ST-Letter of credit	ST	60.25	CARE A3	1)CARE A3 (07-Jun-22) 2)CARE A3 (06-Apr-22)	-	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 BBB-; Stable / CARE A3 (07-Jun-22) 2)CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (12-Mar-21)	1)CARE BB+; Positive / CARE A4+ (30-Dec-19)

					(06-Apr-22)			
4	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (30-Dec-19)
5	Fund-based - LT-Term Loan	LT	31.99	CARE BBB-; Stable	1)CARE BBB-; Stable (07-Jun-22) 2)CARE BBB-; Stable (06-Apr-22)	-	1)CARE BB+; Stable (12-Mar-21)	-
6	Non-fund-based - ST-Forward Contract	ST	0.67	CARE A3	1)CARE A3 (07-Jun-22)	-	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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