Shalimar Paints Limited

December 11,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	134.49	CARE BBB- (RWD)	Continues to be on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	10.75	CARE BBB- / CARE A3 (RWD)	Continues to be on Rating Watch with Developing Implications
Short Term Bank Facilities	60.92	CARE A3 (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings continue to remain on 'Rating Watch with Developing Implications' following the open offer by Hella Infra Market Private Limited (Hella) on stock exchange on October 10, 2023, to acquire 26% stake in the company i.e. 2,17,64,907 equity shares @ Rs. 165 each leading to majority shareholding in the company. CARE shall review the ratings once more clarity with respect to change in management, operational aspects and impact on financials would emerge upon completion of the open offer. The ratings of Shalimar Paints Limited (SPL) continue to derive strength from the significant fund infusion by Hella from conversion of share warrants into equity shares boosting the liquidity position and improvement in financial risk profile of the company. The ratings also 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 during FY23 (refers to period April 01 to March 31). The ratings also take cognizance of the improvement in scale of operations during H1FY24 (refers to period April 01 to September 30). The ratings, however, continue to remain constrained by the continued albeit reduced operating losses during FY23, 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. The ratings also take cognizance of higher losses reported during H1FY24 largely due to strategic decisions by the management for deploying more marketing teams leading to increase in employee cost and increase in number of warehouses to increase market penetration. However, the operating margins are expected to improve in H2FY24 (refers to the period October 01 to March 31) largely due to better apportionment of increased fixed cost on account of higher topline, lower raw material prices due to softening of crude oil prices and various cost control measures taken by the company.

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

Detailed description of the key rating drivers:

Key Strengths

Significant fund infusion boosting liquidity position.
The company has received balance Rs. 112.50 crores (i.e. 75% of issue proceeds) during October 2023 upon conversion of 1,14,94,252 share warrants from Hella Infra, Virtuous Tradecorp Private Limited (a promoter group entity) and JSL Limited (a promoter group entity). The aforementioned funds were applied towards reducing the working capital limits outstanding and

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

strengthening the liquidity position of the company. Going forward, effective management of available funds in order to improve operating performance and overall financial risk profile of the company shall be a key monitorable.

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, Jindal Industries, Surya Roshni, Arcelor Mittal and APL Apollo Tubes Limited (APL) and has been instrumental in turnaround and growth of these companies especially JSL and APL. Mr. Abhyuday Jindal (MD of Jindal Stainless Limited and member of promoter group) and Mr. Souvik Pulakesh Sengupta (promoter- Hella Infra Market Pvt Ltd) have also come on board as non-executive non-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. 331.04 crores as on March 31, 2023 slightly moderated from Rs. 352.10 crores as on March 31, 2022, owing to losses reporting during the year. Overall gearing stood comfortable at 0.47 times as on March 31, 2023 slightly improved from 0.53 times as on March 31, 2022, however coverage indicators remained poor in tandem with subdued profitability as reflected by 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 6,500 dealers, 49 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

Loss making operations despite growth reported in total operating income during FY23 and H1FY24.

During the year FY23, SPL reported growth of ~35% in topline to Rs. 485.66 crores over Rs. 325.81 crores in FY22, largely driven by volume growth of 12% to 41,506 KL the growth was primarily derived from company's marketing efforts to capture market share. Further, during H1FY24 the company has recorded topline of Rs 248.68 crores supported by further increase in volumes. Profitability margins reported at -3.01% in FY23 as against -6.24 in FY22. Though, the company continued to report losses however it has benefited from softening of crude oil prices after sharp inflationary pressure for past two years. The intense competition however continues to exert pressure on the profitability margins of the company. During H1FY24, the company took strategic decisions of deploying more marketing teams with experienced personnels leading to increase in employee cost and increase number of warehouses to increase market penetration resulting in PBILDT margin of -8.38%. The margins are expected to improve in the second half with increase in volumes leading to better apportionment of fixed cost, lower raw material prices given the softening of crude oil prices and various cost control measures taken by the company.

Working capital intensive operations

The operating cycle of the company elongated to 77 days in FY23 against 72 days during FY22 owing to lower credit period available from its suppliers. (74 days in FY23 against 103 days in FY22). The average inventory also remains at 82 days in FY23 (PY: 96 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. Further, the company extends credit period of 2-3 months to its dealer network resulting in collection period of 69 days in FY23. (PY:79 days)

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.

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 form of unutilized working capital lines of ~80% to the tune of Rs 78 crores (approx.) along with cash and cash equivalents of close to Rs. 75 crores as on October 31,2023 providing adequate cover for meeting the scheduled debt repayment of Rs 11.70 crores in FY24 which shall be paid out of surplus funds lying with company. The company has already paid Rs 7.80 crores till November 2023.

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 Jhunjhnuwala, a Hongkong based businessman. 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, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	358.10	485.66	248.68
PBILDT	-22.45	-14.61	-20.83
PAT	-63.85	-36.11	35.87
Overall gearing (times)	0.53	0.47	NA
Interest coverage (times)	-1.01	-0.92	-2.51

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 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: 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- (RWD)
Fund-based - LT-Term Loan		-	-	28-02-2026	31.99	CARE BBB- (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.75	CARE BBB- / CARE A3 (RWD)
Non-fund-based - ST-Forward Contract		-	-	-	0.67	CARE A3 (RWD)
Non-fund-based - ST-Letter of credit		-	-	-	60.25	CARE A3 (RWD)

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	102.50	CARE BBB- (RWD)	1)CARE BBB- (RWD) (19-Oct-23)	1)CARE BBB-; Stable (03-Mar-23) 2)CARE BBB-; Stable (07-Jun-22) 3)CARE BBB-; Stable (06-Apr-22)	-	1)CARE BB+; Stable (12-Mar-21)
2	Non-fund-based - ST-Letter of credit	ST	60.25	CARE A3 (RWD)	1)CARE A3 (RWD) (19-Oct-23)	1)CARE A3 (03-Mar-23) 2)CARE A3 (07-Jun-22)	-	1)CARE A4+ (12-Mar-21)

						3)CARE A3 (06-Apr-22)		
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	10.75	CARE BBB- / CARE A3 (RWD)	1)CARE BBB- / CARE A3 (RWD) (19-Oct-23)	1)CARE BBB-; Stable / CARE A3 (03-Mar-23) 2)CARE BBB-; Stable / CARE A3 (07-Jun-22) 3)CARE BBB-; Stable / CARE A3 (06-Apr-22)	-	1)CARE BB+; Stable / CARE A4+ (12-Mar-21)
4	Fund-based - LT-Term Loan	LT	31.99	CARE BBB- (RWD)	1)CARE BBB- (RWD) (19-Oct-23)	1)CARE BBB-; Stable (03-Mar-23) 2)CARE BBB-; Stable (07-Jun-22) 3)CARE BBB-; Stable (06-Apr-22)	-	1)CARE BB+; Stable (12-Mar-21)
5	Non-fund-based - ST-Forward Contract	ST	0.67	CARE A3 (RWD)	1)CARE A3 (RWD) (19-Oct-23)	1)CARE A3 (03-Mar-23) 2)CARE A3 (07-Jun-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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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