

## Shalimar Paints Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	127.38 (Reduced from 134.49)	CARE BBB-; Negative	Reaffirmed and removed from Rating Watch with Developing Implications; Negative outlook assigned
Long Term / Short Term Bank Facilities	63.25 (Enhanced from 60.25)	CARE BBB-; Negative / CARE A3	LT rating and Negative outlook assigned, and ST rating reaffirmed and removed from Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	13.75 (Enhanced from 10.75)	CARE BBB-; Negative / CARE A3	Reaffirmed and removed from Rating Watch with Developing Implications; Negative outlook assigned
Short Term Bank Facilities	0.67	CARE A3	Reaffirmed and removed from Rating Watch with Developing Implications

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 strong financial support demonstrated by its promoter, Hella Infra Market Private Limited (Hella) and other two promoter group companies, Virtuous Tradecorp Private Limited (VTPL) and JSL Limited (JSL), as evident from significant equity infusions made in SPL so far, thus boosting its liquidity position and improving overall financial risk profile. The ratings also continue to derive strength from SPL's long track record of operations, experienced management, established brand name and dealer network, its presence across different locations and satisfactory capital structure. The ratings further take cognizance of the volume driven growth in scale of operations in FY24 (refers to the period from April 01, 2023, to March 31, 2024) and H1FY25 (refers to the period from April 01, 2024, to September 30, 2024).

The ratings, however, continue to remain constrained by the continued losses at operating level, weak debt coverage indicators, working capital-intensive nature of operations, vulnerability of margins to volatility in raw material prices derived from crude prices, high competition in paints industry and limited pricing flexibility. The ratings also take cognizance of the sustained losses at operating level reported in H1FY25. The losses reported were largely on account of the strategic decisions taken by SPL's management during last fiscal year, for deploying more marketing teams and increasing the number of warehouses and sales depots, to increase the market penetration. This however, resulted in increase in the costs of employees, sales and marketing in FY24 and H1FY25. Going forward, SPL's operating margins are expected to improve in near-to-medium term, largely owing to the various cost control measures initiated by the management and also supported by volume led consistent growth in topline.

The ratings assigned to the bank facilities of SPL were placed on "Rating Watch with Developing Implications (RWD)", following the open offer by Hella on stock exchange on October 10, 2023, to acquire additional 26% stake in SPL i.e., 2,17,64,907 equity shares at Rs.165 each leading to majority shareholding in SPL. However, the 'rating watch' has now been removed in line with CARE Ratings Limited's (CARE Ratings') expectation that SPL, which is now a part of Hella group, shall benefit from operational synergies through backward integration along with marketing and distribution benefits, and financial support extended by Hella. Moreover, the co-founders of Hella Group, Mr. Souvik Sengupta and Mr. Aaditya Sharda are on SPL's Board of Directors (BOD), who shall, in CARE Ratings' view, play a key role in goal-setting and strategic decision making for SPL, to turnaround operations and make SPL a profitable entity by next fiscal year. Accordingly, to arrive at the ratings of SPL, CARE Ratings has factored in strong operational, management and financial linkages with the parent entity, Hella.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability to sustain scale of operations and achieve profitability, marked by total operating income (TOI) above Rs.500 crores and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 6% on a sustained basis.

#### Negative factors

- Absence of continuous financial support by promoters, through timely infusion of funds, as and when required, to ensure timely debt servicing and improve liquidity position of SPL.
- Any higher than envisaged debt-funded capital expenditure (capex) undertaken, adversely impacting liquidity position and overall financial risk profile as marked by overall gearing above 1.50x on a sustained basis.
- Significantly higher than envisaged annual operating loss for current fiscal year and/or inability to turnaround operations to achieve profitability at operating level as envisaged for next fiscal year and thereafter, marked by PBILDT margin below 2% on a sustained basis.
- Deterioration in scale of operations as marked by TOI below Rs.300 crores on a sustained basis.

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

**Analytical approach:** Standalone, while factoring operational and financial linkages with its promoter, Hella, who has increased its stake to more than 50% in SPL in March 2024.

**Outlook:** Negative

The 'negative' outlook assigned to the ratings of SPL takes into account the likely sustenance of losses at operating level in the coming quarters, which could lead to deterioration in its liquidity position. The outlook may be revised to 'stable' based on SPL's ability to turnaround operations to achieve desired profitability and continuation of financial support by Hella to support liquidity position of SPL.

**Detailed description of the key rating drivers**

**Key strengths**

**Strong parentage with demonstrated financial support**

SPL is now promoted by Hella, which holds a controlling stake in SPL since March 11, 2024. Hella is engaged in the similar line of business and provides a comprehensive range of construction materials including Ready-mix concrete (RMC), aggregates, fly-ash, paints, construction chemicals, steel and cement. Hence, SPL shall benefit from strong parentage in the form of sourcing synergies, marketing benefit, common management, and financial support extended by Hella. At the time of initial acquisition of stake in SPL in February 2022, Hella had infused funds to the tune of ~Rs.345 crores, in form of equity infusion (Rs.290 crores) and through debt (9% Optionally Convertible Debentures (OCD) of ~Rs.55 crores). The outstanding OCDs is however paid off by SPL in FY24. In 2023, SPL additionally raised Rs.150 crores through share warrants, issued to Hella (Rs.75 crore) and other two promoter group companies: Virtuous Tradecorp Private Limited (Rs.40 crores) and JSL Limited (Rs.35 crores). These funds are largely applied by SPL towards reducing outstanding of working capital borrowings, repay term loans, funding of capex and to strengthen the overall liquidity position.

**SPL's long track record with experienced management team**

SPL was incorporated in 1902, since then, the company continued to expand its operations across India by setting up facilities across different locations: Howrah, West Bengal; Nasik, Maharashtra (West); Sikandrabad, Uttar Pradesh (North) and Chennai, Tamil Nadu (South), thereby increasing the aggregate production capacity through various units. SPL has a long-established track record of more than 100 years in the paints industry with experienced management team. Currently, BOD of SPL comprise of 01 whole time director, 02 directors (common to Hella's BOD), 01 Chief Financial Officer (CFO) and 04 Independent directors. Mr. C. Venugopal, wholetime director and Chief Operating Officer (COO) of the company, is a postgraduate having extensive industry experience of three decades including with Nippon Paints and Kansai Nerolac Paints. Further, Mr. Aaditya Sharda and Mr. Souvik Sengupta have joined SPL's BOD, for providing strategic guidance to make SPL a self- sustainable and profitable entity. Mr. Sharda, SPL's director and co-founder of Hella, is a postgraduate having rich experience in paints and construction industries. Mr. Souvik Sengupta, SPL's director and co-founder of Hella, is also a post-graduate with experience of over 7 years. He heads Finance and Investor Relations at Hella.

**Strategically located manufacturing facilities with established brand and dealer network**

SPL operates in two major segments: Decorative and Industrial. Decorative paint segment mainly caters to domestic, office and other building purposes while industrial paints segment caters to protective coating sector, product finish, and range of marine paints including antifouling paint. The major brands of SPL under decorative segment include Signature, Weather Pro+, Hero, Xtra Tough, Superlac, No.1 Silk Emulsion, Super Shaktiman, Master Emulsion among others. The industrial paints are primarily used for beautifying and protecting the structure from deterioration through corrosion. Further, SPL has manufacturing facilities strategically located across different zones: Nasik, Maharashtra (West); Sikandrabad, Uttar Pradesh (North) and Gummidipudi, Chennai, Tamil Nadu (South). Also, SPL has a wide distribution network of over 6,500 dealers, 49 sales depots spread across 3 regional distribution centres. The sales in decorative segment are mostly retail, made through dealers. In industrial segment, sales are mostly made to the OEMs (original equipment manufacturers)/ institutional clients as per their specifications. SPL has reputed corporate clients in the industrial paint segment including both public sector and private sector enterprises. The major clients in industrial segment include Jindal Saw Ltd., Jindal Steel & Power Ltd., JSW Steel Ltd., Offshore Infrastructures Ltd. and Nayara Energy Ltd., among others.

**Satisfactory capital structure albeit poor coverage indicators**

SPL's capital structure continues to remain satisfactory, marked by strong tangible net worth (TNW) base of Rs.327.94 crore as on September 30, 2024 (March 31, 2024: Rs.374.46 crore). TNW is largely strengthened by the significant infusion of funds by Hella but partially offset by continuous losses. Overall gearing stood comfortable at 0.50x as on September 30, 2024 (March 31, 2024: 0.33x), however debt coverage indicators of the company remains poor in tandem with subdued profitability as reflected by negative interest and debt coverage.

## Key weaknesses

### Loss making operations despite growing scale of operations

SPL has reported a topline growth of ~10% year-on-year (YoY) in FY24, to Rs.535.08 crore (PY: Rs.485.66 crore), underpinned by the growth in sales volume by ~22% YoY. The volume growth is largely supported by healthy change in the mix of water-based products and in specific emulsion portfolio. Further, SPL reported a topline of Rs.273.07 crore in H1FY25 (PY: Rs.244.98 crore), largely supported by volume growth. Nevertheless, SPL reported a loss at PBILDT level of Rs.53.97 crore (PY: -Rs.14.61 crore). The intense competition, however, continues to exert pressure on SPL's profitability margins. To combat increased competition from existing players (such as Asian Paints, Berger Paints (rated CARE A1+), Kansai Nerolac, among others) and emerging players (such as Birla Opus, JSW Group, among others), and with an aim to expand scale of operations, SPL took strategic decisions in last fiscal year, of deploying more marketing teams and increasing number of warehouses and sales depots to increase market penetration. The above however, resulted in the widening of operational losses in FY24, since employees' costs along with sales and marketing expenses increased YoY. Further, SPL reported a loss of Rs.34.00 crore at the operating level in H1FY25 (PY: -Rs.24.74 crore). Hence, with an aim to curtail losses and achieve profitability, the management of SPL has now strategically decided, to optimize the costs through various measures including manpower contraction, closure of excess warehouses/sales depots, reduction in administrative, sales and marketing costs. Further, it has undertaken capex for automation and infrastructure development across all the three operational plants, to reduce wastages, improving throughput, quality and overall efficiency. Hence, going forward, SPL is expected to contain losses in the near term and achieve profitability over the medium term. Moreover, SPL is expected to ramp up the operations at its two manufacturing plants, based at Chennai and Nasik (Maharashtra), which are currently underutilized.

### Susceptibility of operating margins to raw material and crude price fluctuation

Raw materials are crucial to the manufacturing of paints with cost of raw materials consumed constituting a major cost ~65% of topline. SPL uses various raw materials with major categories being solvents, pigments, titanium dioxide, acids, chemicals, resins and additives. A significant proportion of the raw materials are derivatives of crude oil. Changes in crude prices affect the decorative paints business more than any other as it is a raw material intensive industry. With rising raw material prices in paint business, SPL has also increased prices to be able to partially pass on raw material price increase. However, competition from the organized and unorganized players does limit pricing as SPL is relatively a smaller player and has low bargain power. Hence, SPL's profitability is susceptible to raw material price fluctuation risk.

### Intensely competitive and fragmented industry

Indian paints industry is characterised by small and regional players constituting unorganised segment, accounting low market share, whereas large and organised players account for majority market share. The organised sector is oligopolistic in nature with top four players: Asian Paints, Berger Paints, Kansai Nerolac and Akzo Nobel (Dulux) controlling over 65% of the overall paint and coatings market and 75% of the decorative paints market. With the new entrants of large size players such as Grasim Industries (Birla Opus) and JSW group, SPL remains exposed to significant competition from both organised and unorganised sector players for its various product segments.

### Working capital intensive operations

SPL's operating cycle stood elongated at 79 days in FY24 (PY: 79 days) largely on account of high average inventory holding period. Average inventory remains at 78 days in FY24 (PY: 81 days) due to the large number of SKUs (Stock Keeping Units) at various outlets and large requirement of raw materials (about 320 types) for manufacturing paints. Further, SPL extends credit period of 2-3 months to its dealer network resulting in collection period of 73 days in FY24 (PY: 69 days) while it receives credit period of around 70 days.

### Liquidity: Adequate

SPL's liquidity position continues to remain adequate, as reflected by moderate utilization of working capital limits to the tune of ~80% in the trailing 12 months ended November 30, 2024, along with free cash and bank balances of ~Rs.12.50 crores as on September 30, 2024; thereby providing adequate cover to meet scheduled debt repayments of ~Rs.13.25 crores in FY25.

### Applicable criteria

[Factoring Linkages Parent Sub JV Group](#)

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Paints

SPL earlier belonged to Ratan Jindal faction of O.P. Jindal group and Mr. Girish Jhunjhunwala, a Hongkong based businessman. Now, it has Hella as promoter, which holds a controlling stake of 52.85% as on September 30, 2024. SPL is listed on both stock exchanges (BSE and NSE). It is engaged in the manufacturing of wide range of paints, in both decorative and industrial paints. The decorative paints are generally used for painting of domestic, office and other buildings, while industrial paints and coatings cater to the protective coatings and product finishing sectors.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)*
Total operating income	485.66	535.08	273.07
PBILDT	-14.61	-53.97	-34.00
PAT	-36.11	-73.75	-46.62
Overall gearing (times)	0.46	0.33	0.50
Interest coverage (times)	-0.92	-4.16	-4.68

A: Audited, UA: Unaudited, PAT: Profit after tax; \*refers to the period from April 01, 2024, to September 30, 2024

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:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT - Cash Credit		-	-	-	102.50	CARE BBB-; Negative
Fund-based - LT - Term Loan		-	-	16-01-2029	24.88	CARE BBB-; Negative
Non-fund-based-LT/ST-Bank Guarantee		-	-	-	13.75	CARE BBB-; Negative / CARE A3
Non-fund-based-LT/ST-Letter of credit		-	-	-	63.25	CARE BBB-; Negative / CARE A3
Non-fund-based - ST - Forward Contract		-	-	-	0.67	CARE A3

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	102.50	CARE BBB- ; Negative	-	1)CARE BBB- (RWD) (11-Dec-23) 2)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)	-
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST	63.25	CARE BBB- ; Negative / CARE A3	-	1)CARE A3 (RWD) (11-Dec-23) 2)CARE A3 (RWD) (19-Oct-23)	1)CARE A3 (03-Mar-23) 2)CARE A3 (07-Jun-22) 3)CARE A3 (06-Apr-22)	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	13.75	CARE BBB- ; Negative / CARE A3	-	1)CARE BBB- / CARE A3 (RWD) (11-Dec-23) 2)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)	-
4	Fund-based - LT-Term Loan	LT	24.88	CARE BBB- ; Negative	-	1)CARE BBB- (RWD) (11-Dec-23) 2)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)	-
5	Non-fund-based - ST-Forward Contract	ST	0.67	CARE A3	-	1)CARE A3 (RWD) (11-Dec-23)	1)CARE A3 (03-Mar-23) 2)CARE A3	-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						2)CARE A3 (RWD) (19-Oct-23)	(07-Jun-22)	

RWD: Rating Watch with Developing Implications; LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of 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-Bank Guarantee	Simple
4	Non-fund-based - LT/ ST-Letter of credit	Simple
5	Non-fund-based - ST-Forward Contract	Simple

#### Annexure-5: Lender details

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

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

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### About us:

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