Shalimar Paints Limited

February 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	110.00	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE D**
Long-term Bank Facilities	-	**-**	**Withdrawn**
Long/short term Bank Facilities	20.75	**CARE BB+; Positive/CARE A4+ (Double B Plus; Outlook: Positive/ A Four Plus)**	**Revised from CARE D/CARE D**
Short-term Bank Facilities	76.25	**CARE A4+ (A Four Plus)**	**Revised from CARE D**
Total	**207.00 (Rs. Two hundred and Seven Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Shalimar Paints Limited (SPL) takes into account the rectification of delays in debt servicing by the company in July 2018 and significant amount (Rs.250.57 crore) of equity infusion into the company through rights issue in April 2018 and December 2018 resulting into improvement in capital structure as well as liquidity.

The ratings are constrained by the operating losses in FY18 (refers to the period from April 1 to March 31) and 9MFY19, exposure to volatility in raw material prices, working capital intensive nature of operations and intense competition.

The ratings, however, draw strength from the long track record of the company, established brand and dealer network across the country with reputed clientele and improvement in capacity utilisation of the plant in Chennai.

Improvement in profitability, managing working capital effectively and timely recommissioning of the Nashik plant are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook has been assigned on the expectation of improvement in profitability in the ensuing quarters due to various steps being taken by the company post infusion of equity to improve working capital position, reduce costs, increase brand presence and improve operational efficiency. The capacity utilisation in the Chennai plant is expected to improve with adequate availability of working capital and the company is also in the process of recommissioning the Nasik plant which is expected to improve the scale of operation as well as increased sales of high margin industrial paints. The outlook may be revised to 'Stable' if the profitability and scale of operation does not improve as envisaged.

Detailed Description of Key Rating drivers

Key Rating Weaknesses

Operating loss in FY18 and 9MFY19

Operating income declined by around 22% in FY18 on account of loss of sale due to disruption in Nasik unit which was affected by a fire in Q3FY17. Further, the capacity utilisation in Chennai unit which commissioned in September 2017 remained low due to lack of working capital. The company incurred operating loss of Rs.33.48 crore in FY18 due to under recovery of fixed overheads and also lower margin from outsourcing of the production of the Nasik unit. Accordingly, SPL reported net loss of Rs.45.42 crore in FY18 as against net loss of Rs.9.61 crore in FY17.

In 9MFY19 also, the company incurred operating loss. However, the capacity utilisation of Chennai plant improved in 9MFY19. Profitability is expected to improve going forward with various steps being taken by the company to increase operational efficiency post infusion of equity.

Working capital intensive nature of operation

The operations of the company are working capital intensive as reflected by high average collection period and high average inventory period. The average inventory period continued to remain high in FY18 due to large number of Stock Keeping Units at various outlets and large requirement of raw materials for manufacturing of paints. The average collection period was 149 days in FY18 as against 100 days in FY17 and continued to remain on the higher side due to non-recovery from old debtors and extension of higher credit to push sales. Part of the working capital requirement was

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

met through stretching creditors and average creditors period stood at 158 days in FY18.
Going forward with infusion of proceeds from rights issue, the working capital position is expected to improve as part of the proceeds shall be utilized for payment to creditors. Besides, SPL have taken steps to tighten the credit period allowed to debtors which will improve the average collection period.
The capital structure of the company has improved significantly post infusion of equity.

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 50% of the gross sales in FY18 (49% in FY17). While the company generally passes on the adverse movement in raw material prices to consumers, there is a time lag.

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 plans to focus on the tier II and tier III cities to market its products.

Key Rating Strengths
Improvement in liquidity position and regularisation of delays in debt servicing
The company raised Rs.49.7 crore from rights issue in April, 2018. It also received insurance claim amounting to Rs.11 crore in March 2018 as partial claim for fire in Nasik unit and Rs.11.22 crore in Q1FY19 for the fire in Howrah unit. All the irregularities in the bank accounts were regularised post the rights issue. SPL raised further Rs.200.87 crore in December 2018 from another rights issue. The funds received are expected to be utilised for capex requirement in Nasik plant (including setting up a regional distribution centre), working capital requirements (including paying off the operational creditors) and for branding.

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. Though the company did not launch any new paint in FY18, it introduced solvent free epoxy coating for water pipeline interior and rapid cure epoxy coating for DI pipe exterior. Further in 9MFY19 the company introduced variants for protective paints which are used for industrial purpose.

Improvement in the operation at Chennai project
SPL had set up a greenfield plant for manufacturing both decorative & industrial products at Gummidipoondi near Chennai to cater to the fast growing market in southern India. The project commenced commercial operation from September 2017. During the third quarter Q3FY19 the capacity utilization improved to 50%.

Multi location presence with established dealer network across the country & reputed clientele
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 5,300 active dealers.
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.

Liquidity
Post rights issue, the liquidity position of the company has improved significantly. Also, the company has parked Rs.50 crore in fixed deposits with bank for future working capital requirement.

Analytical approach: Standalone

Applicable Criteria
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Criteria on assigning Outlook to Credit Ratings]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]

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. Further in November 2016, a fire broke out at the Nasik factory resulting in damage of stock, a part of plant and machineries and factory building. About 1400 Kl/month of the capacity was damaged. However, the resin unit and aluminium and packaging unit was not impacted and the company continued with production in the same from April 2017 in the Nasik unit.
Further, the Chennai unit had started its first phase of commercial operation with capacity of 18000 KL/annum of water based paint from September 2017.

Brief Financials (Rs. crore)	FY17	FY18
Total operating income	350.07	271.86
PBILDT	14.58	-33.48
PAT	-9.61	-45.42
Overall gearing (times)	1.19	1.70
Interest coverage (times)	0.65	-1.29

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

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

Analyst Contact:
Name: Ms Mamta Muklania
Tel: 033-4018 1651
Mobile : 98304 07120
Email: mamta.khemka@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	110.00	CARE BB+; Positive
Non-fund-based - ST-Letter of credit	-	-	-	76.25	CARE A4+
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.75	CARE BB+; Positive / CARE A4+
Term Loan-Long Term	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	110.00	CARE BB+; Positive	-	1)CARE D (07-Mar-18) 2)CARE B; Negative (13-Jul-17)	1)CARE BBB (07-Oct-16)	1)CARE BBB (09-Dec-15)
2.	Non-fund-based - ST-Letter of credit	ST	76.25	CARE A4+	-	1)CARE D (07-Mar-18) 2)CARE D (13-Jul-17)	1)CARE A3 (07-Oct-16)	1)CARE A3 (09-Dec-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.75	CARE BB+; Positive / CARE A4+	-	1)CARE D / CARE D (07-Mar-18) 2)CARE B; Negative / CARE A4 (13-Jul-17)	1)CARE BBB / CARE A3 (07-Oct-16)	1)CARE BBB / CARE A3 (09-Dec-15)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE D (07-Mar-18) 2)CARE B; Negative (13-Jul-17)	1)CARE BBB (07-Oct-16)	1)CARE BBB (09-Dec-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691