

## Shalimar Paints Limited

December 30, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	110.00	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Reaffirmed
Long/short term Bank Facilities	20.75	CARE BB+; Positive/CARE A4+ (Double B Plus; Outlook: Positive/A Four Plus)	Reaffirmed
Short-term Bank Facilities	76.25	CARE A4+ (A Four Plus)	Reaffirmed
<b>Total</b>	<b>207.00</b> (Rs. Two hundred and Seven Crore 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) continues to remain constrained due to working capital intensive nature of operations, intense competition in paint industry and exposure to volatility in raw material prices. However, the ratings derive strength from long track record of the company, established brand and dealer network across the country and improvement in operational performance marked by break-even at operating level achieved during H1FY20 (refers to period: April 01 to September 30). The ratings also take into consideration of recommissioning of Nasik plant during September, 2019 and comfortable capital structure with adequate liquidity position.

### Rating Sensitivities

#### Positive:

- Improvement in profitability with PBILDT margin of 10% on a sustained basis
- Total debt to PBILDT below 5x on sustained basis

#### Negative:

- Delay in turning cash flow positive as expected from Q4FY20 (refers to period: January 01 to March 31)

#### 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 company has achieved recommissioning of Nasik plant which is expected to improve the scale of operation.

The outlook may be revised to 'Stable' if the profitability and scale of operation does not improve as envisaged.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**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 FY19 (refers to period: April 01 to March 31) 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 128 days in FY19 as against 149 days in FY18 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 met through stretching creditors and average creditors period stood at 122 days in FY19 (PY: 158 days).

**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 55% of total cost of sales in FY19 (45% in FY18). 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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

**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 Jhunjunwala – 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. Jhunjunwala 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.

**Improving operational performance:** The total operating income of SPL improved to Rs 289.55 cr during FY19 (PY: Rs 271.86 cr) on account of increase in sales realization for both industrial and decorative paints. However, SPL reported losses at PBILDT level of Rs 59.90 cr (PY: loss of Rs 33.48 cr). During FY19, SPL was supported by funds infusion via two rights issue of Rs 49.73 cr in April, 2018 and Rs 200.87 cr in January, 2019. SPL reported improvement in operational performance during H1FY20 with total operating income of Rs 167.53 cr (PY: Rs 123.74 cr) and PBILDT of Rs 0.56 cr (PY: loss of 18.17 cr). Also, after recommissioning of Nasik plant in September, 2019, revenue and profit margins are further expected to improve and it will remain a key monitorable.

**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, 34 depots and a network of around 3500+ active distributors. 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.

**Adequate Liquidity:** The current ratio of SPL improved to 1.10x as on March 31, 2019 (PY: 0.76x) on account of low working capital utilization and higher cash and cash equivalents as on March 31, 2019. 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. The average month end utilization of fund based limits for the past twelve months ending October, 2019 stood at moderate 73.85%. Average month end non-fund based utilization remained low for past twelve months ending October, 2019 at 30.76%. During FY20, SPL has term loan repayment of Rs 1.92 cr and management has not planned any capital expenditure for capacity enhancement from cash accruals. The management is also expecting insurance claim of Rs 19.00 cr during H2FY20 (refers to period: October 01 to March 31) on the loss of profit of Nasik plant which will support liquidity.

**Analytical approach:** Standalone

### Applicable criteria –

[Criteria for assigning outlook and credit watch](#)

[CARE's policy on default recognition](#)

[Rating Methodology – Manufacturing companies](#)

[Financial ratios- Non-financial sector](#)

[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 Jhunjunwala, a Hongkong based businessman. Mr. Jhunjunwala 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)	FY18	FY19
Total operating income	271.86	289.55
PBILDT	-33.48	-59.90
PAT	-45.42	-81.54
Overall gearing (times)	1.68	0.59
Interest coverage (times)	NM*	NM

\*NM- not meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated facility: 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	-	-	-	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+

#### 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	110.00	CARE BB+; Positive	-	1)CARE BB+; Positive (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE B; Negative (12-Jul-17)	1)CARE BBB (07-Oct-16)
2.	Non-fund-based - ST-Letter of credit	ST	76.25	CARE A4+	-	1)CARE A4+ (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE D (12-Jul-17)	1)CARE A3 (07-Oct-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.75	CARE BB+; Positive / CARE A4+	-	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)	1)CARE BBB / CARE A3 (07-Oct-16)
4.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (22-Feb-19)	1)CARE D (07-Mar-18) 2)CARE B; Negative (13-Jul-17)	1)CARE BBB (07-Oct-16)

**Annexure-3: Details of Covenants – NA**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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