Shalimar Paints Ltd

July 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
A. Short-term Bank Facilities	76.25	**CARE D**	**Revised from CARE A3 (A three)**
B. Long-term Bank Facilities	126.26	**CARE B; Negative (Single B; Outlook: Negative)**	**Revised from CARE BBB (Triple B)**
C. Long/Short term Bank facilities	20.75	**CARE B; Negative/CARE A4 (Single B; Outlook: Negative/A Four)**	**Revised from CARE BBB/CARE A3 (Triple B/A Three)**
Total Facilities	**223.26 (Rupees Two hundred twenty three crore and twenty six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities (A) above of Shalimar Paints Limited (SPL) takes into account the instances of devolvement of LC in Q1FY18 (refers to the period April 1 to June 30) due to liquidity mismatch. The ratings for facilities (B) and (C) above factor in the deterioration in financial performance and debt coverage indicators. The ratings are also constrained by volatility in raw material prices and working capital intensive nature of operations.

However, the ratings also take into account the long track record of the company, established brands and liquidity support extended by the promoters in the form of unsecured loans in Q1FY18.

Successfully raising funds through rights issue to support operations, re-commissioning of the Chennai unit, timely restoration of the unit in Nasik and receiving the insurance claim as envisaged would remain the key rating sensitivities.

Outlook: Negative

The 'Negative' outlook reflects expected continuation of stress on the liquidity till infusion of funds by the promoters and successful re-commissioning of the Chennai unit. The outlook may be revised to 'Stable' if the company is able to raise funds as envisaged and derive benefits from additional capacity to be commissioned.

Detailed description of the key rating drivers

Key Rating Weaknesses

Delays in servicing bills under LC in Q1FY18

The company delayed in retiring bills under its LC obligations in Q1FY18 which were however, subsequently regularised. The delay was on account of liquidity mismatch.

Deterioration in financial performance and debt coverage indicators in FY17

Operating income declined by around 8% in FY17 on account of disruption in Nasik unit which was affected by a fire in Q3FY17 and also due to demonetisation. Further, the PBILDT margin also declined on account of under recovery of fixed overheads. SPL incurred cash loss in FY17 as against GCA of Rs.5.94 crore in 9MFY17.

The company is in the process of raising funds of Rs.50 crore through a rights issue for which draft letter of offer has already been submitted to the regulator for approval. Further, the promoters have extended support through infusion of unsecured loans.

Working capital intensive nature of operation resulting in high overall gearing ratio

Overall gearing deteriorated to 3.59x as on March 31, 2017 from 3.07x as on March 31, 2016 due to depletion of net worth and increase in borrowings.

Overall gearing continued to remain on the higher side due to working capital intensive nature of the business as reflected by high average collection period and high average inventory period.

Volatility in raw material prices

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

The raw materials are organic acids/chemicals, solvents, oils, pigments and packaging materials. Raw material cost constituted around 47% of the gross sales in FY17 (52% in FY16). While the company generally passes on the adverse movement in raw material prices which are volatile to consumers, there is a time lag.

Key Rating Strengths

Long track record of SPL

Incorporated in 1902, the company has a track record of more than a century. The paint manufacturing unit of SPL at Howrah was the first large scale paint manufacturing unit in South East Asia. Over the years, the company set-up facilities at three other locations – Nasik, Sikandrabad and Chennai and increased the capacity of its various units.

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.

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 currently own 31.15% each of the equity in the company.

SPL is engaged in manufacturing a wide range of paints in both decorative and industrial paint segments. The company had three manufacturing facilities at Howrah, Nasik & Sikandrabad. However, on March 12, 2014 a major fire broke out at the Howrah unit which caused significant damage to the unit. SPL declared suspension of work at the Howrah unit on July 16, 2014. Nasik and Sikandrabad had an installed capacity of 9,660 metric tonne (MT) for distemper & putty and 36,950 Kiloliter (KL) for enamels, emulsions, primers and industrial paints, etc.

In Q3FY17, there was a fire in the Nasik unit which resulted in damage of stock and fixed assets. About 1400 kl/month of capacity has been impacted due to fire. Presently, the company is outsourcing majority of the production for the unit which has impacted the profit margins. The company intends to rebuild the Nasik plant for which it is actively in the process of tying up funds.

Further, the Chennai unit which was decommissioned in April 2015 due to technical issues is expected to re-commission and gradually ramp up production from end of July 2017 onwards.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	403.01	369.55
PBILDT	31.29	15.12
PAT	5.28	-6.60
Overall gearing (times)	3.07	3.59
Interest coverage (times)	1.41	0.67

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.*

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About CARE Ratings:

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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 B; Negative
Non-fund-based - ST-Letter of credit	-	-	-	76.25	CARE D
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.75	CARE B; Negative / CARE A4
Term Loan-Long Term	-	-	July 2018	16.26	CARE B; Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	110.00	CARE B; Negative	-	1)CARE BBB (07-Oct-16)	1)CARE BBB (09-Dec-15)	1)CARE BBB+ (13-Oct-14)
2.	Non-fund-based - ST-Letter of credit	ST	76.25	CARE D	-	1)CARE A3 (07-Oct-16)	1)CARE A3 (09-Dec-15)	1)CARE A3+ (13-Oct-14)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.75	CARE B; Negative / CARE A4	-	1)CARE BBB / CARE A3 (07-Oct-16)	1)CARE BBB / CARE A3 (09-Dec-15)	1)CARE BBB+ / CARE A3+ (13-Oct-14)
4.	Term Loan-Long Term	LT	16.26	CARE B; Negative	-	1)CARE BBB (07-Oct-16)	1)CARE BBB (09-Dec-15)	1)CARE BBB+ (13-Oct-14)

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