October 14, 2021

JSW Paints Private Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based Limits	110.00	110.00	[ICRA]BBB-(Stable); reaffirmed
Long-term – Fund-based Limits Term loan	380.00	380.00	[ICRA]BBB-(Stable); reaffirmed
Short-term- Non-fund Based Limits	25.00	25.00	[ICRA]A3; reaffirmed
Short-term- Fund-based Limits	75.00	150.00	[ICRA]A3; reaffirmed
Short-term interchangeable	(50.00)*	(50.00)*	[ICRA]A3; reaffirmed
Long-term/short-term- Unallocated	75.00	-	-
Total	**665.00**	**665.00**	

*^Instrument details are provided in Annexure-1; *sub-limit of short-term fund based*

Rationale

The ratings favourably factor in JSW Paints Private Limited's (JSWPPL) status as a part of the JSW Group and the undertaking given by the promoters to the lenders to meet any shortfall in debt servicing during the entire tenure of the loan. ICRA has also considered the strategic importance of JSWPPL to the JSW Group as it supplies industrial paint to JSW Steel Coated Product Limited (JSWSCPL), which manufactures downstream steel products, including colour coated coils/sheets. Going forward, JSWSCPL's entire industrial paint requirement is expected to be supplied by JSWPPL's industrial paint division. The ratings also take into account the successful fund raising to the tune of Rs. 150 crore through compulsory convertible debentures (CCD) in FY2021, Rs. 300 crore by way of equity infusion by JSW Steel Limited (rated [ICRA]AA (Stable)/A1+) and the management's stated intent to raise additional Rs. 450 crore of fresh equity over the next two-three years towards working capital, capital expenditure (capex) and debt servicing requirements.

The ratings are, however, constrained by the loss-making operations of JSWPPL due to significant marketing investments being undertaken for ramping up its presence in the decorative paints segment. In FY2021, JSWPPL expanded its distribution and dealer network as well as increased its footprint in the southern and western markets. The company aims to have a pan-India presence and is expected to undertake significant marketing and promotion related expenses for enhancing its market and distribution presence over the next two-three years. The company is also looking to triple its capacity in the decorative paint segment over the next two-three years. The total capital outlay would be more than Rs. 600 crore, proposed to be funded by debt-to-equity ratio of 50:50. This, in turn, would keep the debt levels elevated. The company's ability to profitably ramp up its presence in the decorative segment is a key rating sensitivity.

The ratings are also tempered by the intense competition from organised and unorganised players, especially in the decorative paint segment, which exposes JSWPPL to offtake risks. JSWPPL's ability to leverage its brand to increase its market share in the decorative paint segment would remain crucial. The ratings also reflect JSWPPL's exposure to volatility in raw material prices, given the raw material intensive nature of the paint manufacturing business and limited bargaining power against its suppliers.

The 'Stable' outlook on the [ICRA]BBB- rating reflects ICRA's expectations that JSWPPL would benefit from its association with JSWSCPL, which is the largest manufacturer of colour-coated flat steel products in India and would offtake a major part of JSWPPL's industrial paint output.

Key rating drivers and their description

Credit strengths

Part of the JSW Group and shortfall undertaking by promoters – JSWPPL is a part of the JSW Group promoted by Mr. Sajjan Jindal. The Sajjan Jindal Family Trust has almost 100% shareholding in JSWPPL. Mr. Parth Jindal, son of Mr. Sajjan Jindal, is the Managing Director of the company. Notwithstanding the lower cash flow generation expected during the initial phase of the business operations, ICRA derives comfort from the promoters' undertaking to the lenders to meet any shortfall in debt servicing during the entire tenure of the loan.

Strategic importance to the JSW Group – JSWPPL holds strategic importance to the JSW Group as its industrial paint division would supply paint to JSWSCPL, which manufactures downstream steel products including colour coated coils/sheets. Going forward, JSWSCPL's entire industrial paint requirement is expected to be supplied by JSWPPL's industrial paint division. JSWSCPL is likely to double its coating capacity by FY2022. To meet the increased demand, JSWPPL is in the process of de-bottlenecking its industrial paint line, which would double its existing capacity of 25,000 KLPA by the end of FY2022. This would entail a capex of Rs. 35 crore, which would be funded through fresh equity. Besides, the company has plans to triple its decorative paint capacity by FY2024, involving a total outlay of more than Rs. 600 crore. The major part of the funding for this proposed capex would come from the JSW Steel Limited, which shows the Group's commitment towards JSWPPL's growth plans.

Successful fund raising in FY2021 and H1 FY2022 – The company raised Rs. 150 crore through CCD issuance in August 2020 and Rs. 300 crore by way of equity infusion by JSW Steel Limited in H1 FY2022 to support the operations. In addition to this, the company has plans to raise Rs. 450 crore over the next 2-3 years towards working capital, capex and debt servicing requirements, which lends comfort to the overall liquidity profile of JSWPPL.

Credit challenges

Loss making operations due to marketing investments being undertaken – JSWPPL reported operating losses of Rs. 68.5 crore on an operating income of Rs. 430.5 crore in FY2021. This was due to significant marketing expenses incurred by the company for ramping up its presence in the decorative paints segment. The company has been impacted by demand disruptions amid the second wave of Covid-19. The lockdowns imposed by various states impacted JSWPPL's decorative paint sales in Q1 FY2022. However, with easing of lockdown restrictions, the same witnessed a recovery in Q2 FY2022. The company reported total sales of more than Rs. 300 crore in H1 FY2022 against Rs. 430.5 crore in FY2021. Notwithstanding this, given JSWPPL's increased marketing and selling expenses towards enhancing market presence, the company is yet to achieve break-even of operations.

Large capital expenditure plans – The company has plans to triple its decorative paint segment capacity over the next two-three years. The total capital outlay of more than Rs. 600 crore is proposed to be funded by a mix of debt and equity in 50:50 ratio. This would keep the debt levels elevated.

Intense competition in decorative paint segment – JSWPPL faces intense competition from organised and unorganised players in the decorative paints segment. The domestic paint industry is characterised by the presence of large players like Asian Paints, Berger Paints, Kansai Nerolac, among others. and unorganised players having regional dominance. Being a new entrant, the company remains exposed to the offtake risks, especially in the decorative paint segment, which in turn would keep its capacity utilisation under check in the near term.

Exposure to volatility in raw material prices – The paint industry is raw material intensive in nature which accounts for about 55-60% of the operating income of a company. In case of industrial paints, crude derivatives account for about 50-60% of the total raw materials costs, thereby exposing the company's margins to fluctuations in crude prices. The company's bargaining power against its suppliers is restricted because it is a recent entrant in the industry.

Liquidity position: Stretched

JSWPPL's liquidity position is expected to remain **stretched** in the near term given the likely pressure on capacity utilisation rates and its loss-making operations in the decorative paint segment. The company had outstanding term loans of Rs. 380 crore as on March 31, 2021, out of which Rs. 40 crore is due in the current fiscal. Nevertheless, the promoters' undertaking to the bank to meet any shortfall in debt servicing during the entire tenure of the loan and the recent equity infusion of Rs. 300 crore by JSW Steel Limited lend comfort to JSWPPL's overall liquidity profile. The company has planned capex of Rs. 35 crore towards de-bottlenecking its industrial paint line in FY2022, which would be funded through fresh equity. It also plans to triple its decorative paint capacity by FY2024. The capex will commence in FY2023, and the capital outlay of more than Rs. 600 crore is proposed to be funded by a mix of debt and equity in the 50:50 ratio.

Rating sensitivities

Positive factors – ICRA could upgrade JSWPPL's rating if the company is able to ramp up its sales in the decorative paint segment and/or maintain a debt service coverage ratio (DSCR) of more than 1.4 times on a sustained basis.

Negative factors – Pressure on JSWPPL's rating could arise in case the company's profitability remains under pressure due to intense competition from other established players and/or if there is a weakening in linkages with the JSW Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating assigned to JSWPPL factors in the high likelihood of the JSW Group extending financial support to it because of close business linkages between them. We also expect the JSW Group to be willing to extend financial support to JSWPPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

JSW Paints Private Limited (JSWPPL) was incorporated in February 2016 and is a part of the JSW Group, promoted by Mr. Sajjan Jindal. The Group has presence across steel, power, infrastructure and cement sectors. Mr. Parth Jindal, son of Mr. Sajjan Jindal, is the Managing Director of JSWPPL. The company manufactures industrial and decorative paints and has two manufacturing facilities in Vasind, Maharashtra and Vijayanagar, Karnataka. While the Vasind plant has an installed capacity of 25,000 kilo litres per annum (KLPA) and caters to the industrial paints segment, the Vijayanagar plant manufactures decorative paints and has an installed capacity of 100,000 KLPA. The plants commenced operations in March 2019.

Key financial indicators

Standalone financials	FY2019 (Audited)	FY2020 (Audited)	FY2021P
Operating Income (Rs. crore)	0.0	206.0	430.5
PAT (Rs. crore)	-3.0	-101.5	-118.0
OPBDIT/OI (%)	-	-32.7%	-15.9%
PAT/OI (%)	-	-49.3%	-27.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	7.1	33.7
Total Debt/OPBDIT (times)	-108.9	-7.5	-9.6
Interest Coverage (times)	-	-1.7	-1.2

Source: Company; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: JSWPPL

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Oct 14, 2021	Jul 7, 2021	Jan 4, 2021	Apr 14, 2020	Sep 26, 2019	
1	Fund-based Limits	LT	110.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Term Loan	LT	380.00	360.00*	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-	-	-
3	Non-fund Based Limits	ST	25.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
4	Fund-based Limits	ST	150.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
5	Interchangeable Limits	ST	(50.00)^	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-
6	Unallocated Limits	LT/ST	-	-	-	[ICRA]BBB- (Stable)/[ICRA]A3	-	-	-	-

*Amount in Rs. crore; ^Sub limit of short-term fund based facility; *As on September 30, 2021; LT – Long Term; ST – Short Term*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash credit	Simple
Term Loan	Simple
Letter of credit	Very Simple
Fund-based facility	Simple
Interchangeable	Very Simple
Unallocated	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No/Name of Bank	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Axis Bank	Cash credit	-	-	-	60.00	[ICRA]BBB-(Stable)
IDFC First Bank	Cash credit	-	-	-	50.00	[ICRA]BBB-(Stable)
Axis bank	Term Loan	FY2018	-	FY2027	380.00	[ICRA]BBB-(Stable)
Axis bank	Letter of credit	-	-	-	25.00	[ICRA]A3
Kotak Mahindra Bank	Fund-based facility	-	-	-	75.00	[ICRA]A3
Yes Bank	Fund-based facility	-	-	-	75.00	[ICRA]A3
Kotak Mahindra Bank	Interchangeable	-	-	-	(50.00)^	[ICRA]A3

Source: *Company; ^Sub limit of short-term fund based facility*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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