

December 29, 2021

STP Limited: Long term rating upgrade; short Term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-fund Based/CC	30.00	50.00	[ICRA]AA +(CE) (Stable) upgraded from [ICRA]AA (CE) (Stable)
Short Term-fund Based/Working Capital Demand Loan*	20.00	(50.00)	[ICRA]A1+ (CE) reaffirmed
Short Term-fund Based/Short Term Loan*	0.00	(20.00)	[ICRA]A1+ (CE) reaffirmed
Short Term Non-fund based	10.00	10.00	[ICRA]A1+ (CE) reaffirmed
Total	60.00	60.00	

*Short term fund based facility is a sublimit of long term fund based facility. The total borrowing under the fund based facility is capped at Rs.50 crore with both the sanctioned limit of Working Capital Demand Loan of Rs. 50 crore and sanctioned limit of Short Term Loan (STL) Rs. 20 crore, being the sub-limit of the long term fund based facility of Rs. 50 crore.

Rating Without Explicit Credit Enhancement	[ICRA]A+/[ICRA]A1
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The ratings are based on the strength of the corporate guarantee provided by Berger Paints India Limited (Berger Paints), the parent of STP Limited (STP), for the rated bank facilities. The Stable outlook on the long-term rating reflects ICRA's outlook on the credit profile of the guarantor, Berger Paints India Limited (Berger).

The rating upgrade factors in the strategic importance of STP for Berger for improving its product offerings under the industrial products segment and expected improvement in the credit profile of STP going forward with the synergies materialising between STP's product profile and Berger's marketing network. The rating continues to factor in the strong parentage of Berger India paints Limited, long and established track record of STP in the construction chemical business and comfortable capital structure characterised by low gearing of 0.7x and Total Debt/OPBDITA of 2.3x by end of FY2021. The ratings however are constrained by the sub-optimal capacity utilisation, exposure to raw material price volatility, and high competitive intensity of the construction chemical industry.

Adequacy of credit enhancement

The ratings of the instrument are based on the third-party explicit support approach. For assigning the rating, ICRA has assessed the attributes of the guarantee issued by Berger Paints in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, and covers the entire amount and tenure of the rated facilities, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]AA(CE)/A1+(CE) to the said facilities against the rating of [ICRA]A+/A1, without explicit credit enhancement. In case the credit profile of the guarantor or the unsupported rating of STP undergoes a change in the future, the same would have a bearing on the rating of the aforesaid facilities as well. The rating of these facilities may also undergo a change if in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation

sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » The guarantee is irrevocable and unconditional.
- » The guarantee shall be a continuing one for all amounts advanced by bank to the borrower under the applicable facilities and interest costs and other monies which may from time to time become due and remain unpaid to bank.
- » The guarantor shall forthwith on demand made by bank, deposit such sum or security specified by the bank and any security deposited may be sold by bank and the said proceeds of sale may be appropriated by bank towards satisfaction of the guaranteed sum.
- » Notwithstanding the provisions of the Indian Contract Act, 1872 or any other law, the guarantor cannot be discharged to any extent.
- » The guarantor agrees to make payment on the bank serving it a notice requiring payment of the amount and such notice shall be deemed to have been served on the guarantor by actual delivery thereof or by dispatch thereof by registered post or by courier or telex or fax or other written or recorded form of electronic communication or by any other means to the guarantor's address.

Key rating drivers and their description

Credit strengths

Corporate Guarantee given by Berger Paints India Limited - The bank facilities rated by ICRA are backed by an unconditional and irrevocable corporate guarantee issued by the parent company, Berger Paints, which lends significant strength to the ratings. Further, STP is expected to benefit as part of the Berger Group, given the operational synergies in terms of product development and product placement in the market. ICRA also draws comfort from the senior management of Berger Paints having board representation in STP, which provides the latter with strategic direction and support.

Long track record of operations - Incorporated in 1935, STP has a long track record of operations and an established sales and distribution network across India for construction chemicals and water-proofing products. The company has six manufacturing facilities in Ambattur (Tamil Nadu), Sipaigachi (West Bengal), Kosi (Uttar Pradesh), Jamshedpur (Jharkhand), Panoli (Gujarat) and Goa.

Comfortable capital structure - STP Limited's capital structure remains comfortable with a gearing of 0.7x and Total Debt/OPBDITA of 2.3x at the end of FY2021. The credit profile is expected to improve going forward with stable cash accruals and limited capex plans of the company.

Credit challenges

Plant capacity utilisation at sub-optimal levels - The under-absorption of fixed overheads resulting from suboptimal plant capacity utilisation in the past has kept return indicators at low levels.

Exposure to raw material price volatility may adversely affect margin - The company's ability to procure raw materials at competitive prices and to pass on any adverse fluctuations in the same to its customers, is a key determinant of profitability and hence, is a risk. Further, the company remains exposed to foreign exchange rate fluctuation risk as most chemicals are imported and it caters to the domestic market.

Intense competition and exposure to cyclicity associated with real estate and infrastructure sectors - The construction chemicals industry, wherein STP operates, is characterised by intense competition from unorganised as well as organised players and multinational manufacturers. Moreover, the demand for construction chemicals depends primarily on real estate, construction and infrastructure development activities, which are cyclical in nature

Liquidity position: Adequate

For Berger Paints India Limited: Strong

The liquidity position of the guarantor Berger Paints India Limited is **Strong** as is reflected in cash and cash equivalents of Rs. 560.7 crore as September 30, 2021, and healthy cash accruals which will enable the entity to meet its capex requirements comfortably along with the term loan repayments which are modest vis-à-vis cash generation.

For STP Limited: Adequate

STP's liquidity is **Adequate** characterised by expected healthy cash accruals going forward and ~Rs. 3.0 crore of cash and cash equivalents at the end of FY2021 to meet near term liabilities. The company does not have any major capex plans as the current capacity utilisation remains sub-optimal.

Rating sensitivities

Positive factors: ICRA could upgrade STP's ratings if there is healthy improvement in its revenues supported by access to Berger Paints' distribution network, along with improved profitability from operational synergies.

Negative factors: A negative rating action could be triggered if there is any change in the parent's ability to support the company, or if there is any material deterioration in the parent's credit metrics. Further, revocation of corporate guarantee from Berger Paints could also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support For entities in the chemical industry
Parent/Group Support	Parent: Berger Paints India Limited The rating is based on the unconditional and irrevocable corporate guarantee extended by Berger Paints India Limited
Consolidation/Standalone	For arriving at the ratings ICRA has factored in standalone financials of STP Limited

About the company

Incorporated in 1935, STP is a Berger Group company, and manufactures and supplies waterproofing products, corrosion protection products, and construction chemicals. In November 2019, Berger Paints acquired a 95.53% stake in the company. STP has manufacturing facilities in Ambattur (Tamil Nadu), Sipaigachi (West Bengal), Kosi (Uttar Pradesh), Jamshedpur (Jharkhand), Panoli (Gujarat) and Cuncolim (Goa).

About the guarantor

Berger Paints, incorporated in 1923, is one of India's oldest paint companies. It manufactures paints and varnishes, and has a strong distribution network, including 110 stock points, catering to over 25,000 dealers. The company derives around 80% of revenue from decorative paints, with the segment having a healthy CAGR of 9% for the three fiscals through March 2021. The company has 14 manufacturing plants: Goa, Puducherry, Maharashtra (Jejuri), Uttar Pradesh (Surajpur factory in Greater Noida, and Sikandrabad), Rishra, Jammu and Howrah. It had commissioned a large greenfield unit in Hindupur, Andhra Pradesh, in September 2014, and a second unit in Naltoli, Assam, in 2016. The company also caters to overseas markets such as Nepal, Bangladesh, Poland and Russia. It has a production facility in Krasnodar, Russia, and two manufacturing units in Nepal. It has also acquired Bolix SA of Poland, which is a leading provider of external insulation finishing systems (EIFS) in Europe. In June 2016, Berger Paints divested its three- and four-wheeler vehicle businesses (accounting for less than 1% of

total turnover) into its existing JV (with Nippon Paints Automotive Coatings Ltd, Japan), Berger Nippon Paints Automotive Coatings Pvt Ltd, matched by an almost equal-sized auto four-wheeler business from Nippon Paints India. The rest of the general industrial and auto (two-wheeler and commercial vehicle) businesses will remain with Berger Paints. In May 2017, Berger Paints acquired Saboo Coatings Pvt Ltd (which makes specialty liquid coatings used in farm and construction equipment, automobiles, fans, electronics, elevators, handicrafts and home furnishing) for Rs 83 crore. In July 2018, the former entered into a JV with Rock Paints Co, Japan, to manufacture auto refinish paints. Berger Paints holds 51% stake in the JV. In November 2019, Berger Paints acquired 95.5% stake in Shalimar Tar Products Ltd (STP Ltd) for a consideration of Rs 130 crore. STP Ltd manufactures construction chemicals, waterproofing chemicals, construction admixtures and tar-based products.

Key financial indicators (audited)

STP Limited	FY2020	FY2021
Operating Income (Rs. crore)	173.2	193.4
PAT (Rs. crore)	-2.2	7.4
OPBDIT/OI (%)	3.7%	8.2%
PAT/OI (%)	-1.3%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3
Total Debt/OPBDIT (times)	6.2	2.3
Interest Coverage (times)	1.2	4.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Berger Paints India Limited	FY2020	FY2021
Operating Income (Rs. crore)	6365.8	6817.6
PAT (Rs. crore)	664.4	725.3
OPBDIT/OI (%)	16.8%	17.6%
PAT/OI (%)	10.4%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.7
Total Debt/OPBDIT (times)	0.7	0.5
Interest Coverage (times)	23.3	27.4

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 as of September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					December 29, 2021	September 18, 2020	March 24, 2020	January 17, 2019	
1	Fund Based/CC	Long Term	50.00	-	[ICRA]AA+ (CE) (Stable)	[ICRA]AA (CE) (Stable)	[ICRA]BBB (Stable)	[ICRA]BB (Stable)	
2	Fund Based/Working Capital Demand Loan*	Short Term	(50.00)	-	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A3+	[ICRA]A4+	
3	Fund Based/Short Term Loan*	Short Term	(20.00)	-	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A3+	[ICRA]A4+	
4	Non-fund based	Short Term	10.00	-	[ICRA]A1+ (CE)	[ICRA]A1+ (CE)	[ICRA]A3+	[ICRA]A4+	

*Short term fund-based facility is a sublimit of long-term fund-based facility. The total borrowing under the fund-based facility is capped at Rs. 50.0 crore with the sanctioned limit of Working Capital Demand Loan of Rs. 50 crore and sanctioned limit of Short-Term Loan (STL) Rs. 20.0 crore, being the sub-limit of the long-term fund-based facility of Rs. 50.0 crore.

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term-Fund Based/CC	Simple
Short Term-Fund Based/Working Capital Demand Loan	Simple
Short Term-Fund Based/Short Term Loan	Simple
Short Term-Non-fund based	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/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
RBL Bank Limited	Long Term-Fund Based/CC	-	-	-	50.0	[ICRA]AA+ (CE) (Stable)
RBL Bank Limited	Short Term-Fund Based/Working Capital Demand Loan	-	-	-	(50.0)	[ICRA]A1+ (CE)
RBL Bank Limited	Short Term-Fund Based/Short Term Loan	-	-	-	(20.0)	[ICRA]A1+ (CE)
RBL Bank Limited	Short Term-Non-fund based	-	-	-	10.0	[ICRA]A1+ (CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis-NA

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