July 07, 2023 (Revised)

JSW Paints Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term – Fund-based Limits	186.00	276.00	[ICRA]BBB(Stable); assigned/reaffirmed
Long-term – Fund-based Term Loan	325.00	262.50	[ICRA]BBB(Stable); reaffirmed
Short-term – Non-fund-based Limits	25.00	51.25	[ICRA]A3+; assigned/reaffirmed
Short-term – Fund-based Limits	244.00	374.00	[ICRA]A3+; assigned/reaffirmed
Long-term/short-term – Interchangeable	(90.00)	(90.00)	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	**780.00**	**963.75**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation favourably factors in JSW Paints Private Limited's (JSWPPL) healthy ramp-up of operations, led by a strong growth in the industrial paints segments as well as pan-India expansion of its distribution network in the decorative segment. The company's healthy revenue growth is likely to continue over the medium term, given its increasing brand presence, aided by continued aggressive spending on marketing activities as well as increasing distribution reach across various regions. The ratings also factor in the equity infusion of Rs. 500 crore by JSW Steel Limited (rated [ICRA]AA(Stable)/A1+) till date and its committed additional equity infusion of Rs. 250 crore in FY2024 towards meeting the funding requirements of JSWPPL. ICRA also expects the JSW Group to provide need-based financial support to JSWPPL, as demonstrated in the past. The ratings also consider 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. JSWSCPL's entire industrial paint requirement is expected to be supplied by JSWPPL's industrial paint division.

While revenues in the decorative segment have increased at a higher pace than the industrial paints segment, it continued to incur operating losses due to continued significant marketing investments, translating into operating losses at the aggregate level. Nevertheless, ICRA notes that the losses in the decorative segment have reduced year on year with a pick-up in revenues and the company has become profitable at the operating level in the last six months led by the industrial segment. The company aims to continuously expand its dealer network and strengthen its pan-India presence. Therefore, it is expected to continue undertaking significant marketing and promotion related expenses over the medium term. With an expected increase in the revenues in FY2024 and beyond, the overall cash flows in the segment are likely to improve. The ability of the company to profitably ramp up its presence in the decorative segment would be a key rating monitorable.

The ratings remain constrained by the moderate financial profile of the company, characterised by operating losses. The company has capital expenditure (capex) plans of ~Rs. 300 crore in FY2024 for debottlenecking, expanding capacities in the industrial and decorative segments and setting up emulsion and resin plants. In addition, the company has planned a large capex of Rs. 750 crore, over the medium term, to set up an integrated plant to manufacture both industrial and decorative paints. These capex plans are proposed to be funded largely via equity (through stake dilution), besides the committed Rs. 250-crore equity infusion from JSW Steel Limited. Given the sizeable capex plans over the medium term, the ability of the company to effectively utilise the enhanced capacity would be a key monitorable. The ratings are also tempered by the intense competition from organised and unorganised players, especially in the decorative paint segment. 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 will benefit from its association with JSWSCPL, which offtakes a major portion of JSWPPL's industrial paint output. Continued healthy revenue growth in both the decorative and the industrial paint segment is likely to translate into improved cash flows for the company, going forward.

Key rating drivers and their description

Credit strengths

Part of the JSW Group; strategically important to the Group – JSWPPL is a part of the JSW Group promoted by Mr. Sajjan Jindal. The Sajjan Jindal Family Trust has a majority shareholding in JSWPPL, with JSW Steel Limited holding a 9.9% stake as on March 31, 2023. Mr. Parth Jindal, son of Mr. Sajjan Jindal, is the Managing Director of the company. JSWPPL holds strategic importance to the JSW Group as its industrial paint division supplies paint to JSWSCPL, which manufactures downstream steel products including color coated coils/sheets. While a major part of JSWCPL's requirement is currently met through JSWPPL, going forward, JSWSCPL's entire industrial paint requirement is expected to be supplied by JSWPPL's industrial paint division.

Committed fund infusion; need-based funding support from JSW Group – JSW Steel Limited has already infused funds worth Rs. 500 crore in JSWPPL till date, out of committed fund infusion of Rs. 750 crore. The funds infused have been utilised towards funding the accumulated losses from operations. The balance Rs. 250 crore is expected to be infused in the current fiscal and will be utilised for meeting the funding requirements of JSWPPL (towards capex, repayment obligations etc.). ICRA also expects the JSW Group to provide need-based financial support to JSWPPL, as demonstrated in the past.

Continued healthy revenue growth in FY2023 – JSWPPL's revenues have grown eight-fold to Rs. 1,594 crore in FY2023 (as per provisional estimates) from Rs. 204 crore in FY2022. The revenues in the industrial segment have increased at a compounded annual growth rate (CAGR) of 46% while that in the decorative segment reported a CAGR of 122% during FY2020-FY2023. The company's healthy revenue growth is likely to continue over the medium term, given its increasing brand presence, aided by continued aggressive spending on marketing activities as well as increasing distribution reach across various regions. JSWPPL now has a pan-India reach with presence in 3,000 towns in the decorative sales segment and has an active network of 5,000 dealers. The company aims to continuously expand its dealer network and further strengthen its pan-India presence.

Credit challenges

Large capex plans; moderate financial profile – The financial profile of the company is subdued, characterised by operating losses. JSWPPL's industrial segment continued to be profitable in FY2023 while ramping up its operations. While the revenues in the decorative segment have increased at a higher pace compared to the industrial paints segment, it continued to incur operating losses due to continued significant marketing investments, translating into losses at an aggregate level. Nevertheless, ICRA notes that the losses in the decorative segment have reduced year on year with a pick-up in revenues and the company has become profitable at the operating level in the last six months led by the industrial segment. The company has capex plans of ~Rs. 300 crore in FY2024 for debottlenecking, expanding capacities in the industrial and decorative segments and setting up emulsion and resin plants. In addition, the company has planned a large capex of Rs. 750 crore, over FY2024-FY2026, to set up an integrated plant in Madhya Pradesh to manufacture both industrial and decorative paints. These capex plans are proposed to be funded largely via equity (through stake dilution), besides the committed Rs. 250 crore equity infusion from JSW Steel Limited. Given the sizeable capex plans over the medium term, the ability of the company to effectively utilise the enhanced capacity would remain under focus.

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 Limited, Berger Paints Limited, Kansai Nerolac Limited, among others and unorganised players having regional dominance. Additionally, the entry of Grasim Industries Limited into the business is expected to further intensify the competition. JSWPPL, being a new entrant, remains exposed to the offtake risks, especially in the decorative paint segment. Intense competition may necessitate continued high spending on brand building and marketing activities, which could impact the profitability, going forward.

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 the case of industrial paints, crude derivatives account for 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 new entrant in the industry.

Liquidity position: Adequate

JSWPPL's liquidity position is **adequate**, supported by the committed fund infusion of Rs. 250 crore (final tranche out of Rs. 750 crore) from JSW Steel Limited and cushion available in the form of unutilised working capital limits. The working capital limit utilisation stood at an average of 47% during the 12-month period ended in March 2023 (with adequate drawing power). In FY2023, the company's working capital limits increased to Rs. 500 crore from Rs. 360 crore to fund the incremental working capital requirements, given the increasing scale of operations. The cash flows of the company are expected to improve in FY2024 and FY2025, aided by a steady growth in the industrial segment and healthy ramp-up in the decorative segment. The company has term loan repayment obligations of Rs. 65 crore in FY2024, Rs. 96 crore in FY2025 and Rs. 106 crore in FY2026. The company has capex plans of ~Rs. 300 crore in FY2024 mainly towards debottlenecking, expanding capacities in industrial and decorative segments, and setting up of emulsion and resin plant. The company also plans to set up an integrated plant over FY2024-FY2026 at an envisaged capital outlay of Rs. 750 crore. The above capex plans are proposed to be largely funded by equity (via committed infusion from JSW Steel Limited of Rs. 250 crore and the balance through stake dilution).

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to successfully ramp up its operations and achieve adequate operating profits in the decorative segment.

Negative factors – Pressure on the ratings could arise if the company's profitability sharply declines and/or in case of any higher-than-planned debt-funded capex, leading to weakening of the credit metrics and/or the liquidity position. Any weakening of linkages with the JSW Group would also be a negative rating factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The ratings assigned to JSWPPL factors in the high likelihood of the JSW Group extending financial support to it because of close business linkages between them. ICRA also expects 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, incorporated in February 2016, is a part of the JSW Group and 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 JSW Paints Private Limited. The company manufactures industrial and decorative paints, and has two manufacturing facilities at Vasind, Maharashtra and Vijayanagar, Karnataka. While the Vasind plant has an installed capacity of 60,000 kilo litres per annum (KLPA) and caters to the industrial paints segment, the Vijayanagar plant manufactures decorative paints and has an installed capacity of 1,10,000 KLPA. The commercial operation date (COD) was achieved in March 2019.

Key Financial Indicators

Standalone	FY2022	FY2023*
Operating Income (Rs. Crore)	1,060.4	1,594.1
PAT (Rs. Crore)	(118.5)	(85.7)
OPBDIT/OI	-5.5%	-2.0%
PAT/OI	-11.2%	-5.4%
Total Outside Liabilities/Tangible Net Worth (times)	4.5	2.6
Total Debt/OPBDIT (times)	(13.0)	(21.8)
Interest Coverage (times)	(1.0)	(0.5)

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount Rated (Rs. Crore)	Amount Outstanding as of March 31, 2023 (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
					Jul 07, 2023	Jul 20, 2022	Jul 06, 2022	Oct 14, 2021	Jul 07, 2021	Jan 04, 2021	Apr 14, 2020
1	**Fund-based Limits**	LT	276.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	**Fund-based Term Loan**	LT	262.50	262.50	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3	**Non-fund-based Limits**	ST	51.25	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	**Fund-based Limits**	ST	374.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	**Interchangeable Limits**	LT/ ST	(90.00)	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
6	**Unallocated Limits**	LT/ ST	-	-	-	-	-	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-

LT- Long-term; ST – Short-term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Limits	Simple
Long-term – Fund-based Term Loan	Simple
Short-term – Non-fund-based Limits	Very Simple
Short-term – Fund-based Limits	Very Simple
Long-term/Short-term – Interchangeable	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 analysing 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 are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	9-10%	NA	276.00	[ICRA]BBB(Stable)
NA	**Term Loan**	FY2018	9-10%	FY2027	262.50	[ICRA]BBB(Stable)
NA	**Letter of Credit**	NA	NA	NA	51.25	[ICRA]A3+
NA	**Fund-based Facilities**	NA	9-10%	NA	374.00	[ICRA]A3+
NA	**Interchangeable Limits**	NA	NA	NA	(90.00)*	[ICRA]BBB(Stable)/[ICRA]A3+

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

Please click here to view details of lender-wise facilities rated by ICRA

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

Corrigendum

Document dated July 07, 2023, has been corrected with revision as highlighted below:

In the exhibit 'Key financial indicators', Total Outside Liabilities/Tangible Net Worth (times) for FY2022 has been corrected to 4.5 from 3.4 earlier. Similarly, Total Debt/OPBDIT (times) for FY2022 has been corrected to (13.0) from (12.2) earlier.

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