

September 26, 2019

JSW Paints Private Limited: [ICRA]BBB-(Stable)/A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based	60.00	[ICRA]BBB- (Stable) assigned
Short term non-fund based	20.00	[ICRA]A3 assigned
Short term fund based	5.00	[ICRA]A3 assigned
Short term Unallocated	25.00	[ICRA]A3 assigned
Total	110.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings consider JSW Paints Private Limited's (JSWPPL) status as a part of the JSW Group, promoted by Mr. Sajjan Jindal and the undertaking given by the promoters to the lender to meet any shortfall in debt servicing during the entire tenure of the loan. While assigning the ratings, ICRA has considered the strategic importance of JSWPPL to the Group as it would supply 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 consider the achievement of financial closure and declaration of the Commercial Operation Date (COD) in March 2019. While Rs. 359 crore out of the sanctioned term loan of Rs. 400 crore has already been disbursed by the lender, the promoters had infused equity of Rs. 148 crore as on March 31, 2019.

The ratings, however, are constrained by the intense competition from organised and unorganised players, especially in the decorative paint segment, which exposes JSWPPL to offtake risks. ICRA believes that low capacity utilisation and high business promotion expenses during the initial phase would keep JSWPPL's margins under pressure in the near term. The ratings are also tempered by the lack of track record of the promoters in the paint industry. While the presence of a management team comprising experienced professionals from the paint industry provides comfort, 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 paint manufacturing business and limited bargaining power against its suppliers.

The 'Stable' outlook on the [ICRA]BBB- rating reflects ICRA's expectation 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

Credit strengths

Part of JSW Group and shortfall undertaking by promoters – JSWPPL is a part of JSW Group promoted by Mr. Sajjan Jindal. The Group has a 100% shareholding in JSWPPL through Sajjan Jindal Family Trust (88%) and Utkarsh Advisory Services Private Limited (12%). 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 business operations, ICRA derives

comfort from the promoters' undertaking to the lender to meet any shortfall in debt servicing during the entire tenure of the loan.

Assured offtake of industrial paints from JSWSCPL, a Group company – 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.

Achievement of financial closure and COD – The total project cost of Rs. 612 crore for setting up the two paint manufacturing facilities is being funded through a term loan of Rs. 400 crore and the balance through equity. The bank funding has already been tied up and Rs. 359 crore has been disbursed till August 8, 2019. Also, the promoters had infused equity of Rs. 148 crore as on March 31, 2019, which largely mitigates funding risks. JSWPPL has achieved COD for both the facilities in March 2019. While a couple of approvals are still pending, the same are not restrictive in nature and are likely to be received soon.

Credit challenges

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 etc. and unorganised players having regional dominance. Being a new entrant, the company remains exposed to offtake risks, especially in the decorative paint segment, which in turn would keep its capacity utilisation under check in the near term. Besides, high expenditure in sales promotions during the initial phase would keep JSWPPL's margins under pressure. While the company has launched its line of decorative paints in six cities and is planning to enter eight more cities by the end of December 2019, its ability to leverage its brand to increase its market share in these cities remains to be seen.

No operational track record in paint industry – JSWPPL was incorporated in February 2016 and started commercial production in March 2019. The promoters do not have any track record in the paint industry. Currently, the company has a modest scale of operations with sales of Rs. 32 crore in 4M FY2020. While the absence of a track record in the paint industry remains a credit challenge, the presence of a management team comprising professionals with long experience in the paint industry provides some comfort. Apart from Mr. Parth Jindal, the management team is led by Mr. Sundaresan Arumbakkam, who is the Joint Managing Director and Chief Executive Officer of the company. He has 20 years of experience in the paint industry. He is supported by other professionals having long experience in the relevant field.

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. Being a recent entrant also restricts the company's bargaining power against its suppliers.

Liquidity position: Stretched

JSWPPL's liquidity position is expected to remain **stretched** in FY2020 given the low capacity utilisation rates and expected cash flow generation from business. The company has outstanding term loans of Rs. 359 crore as on August 8, 2019. While the repayments are scheduled to begin in September 2020, the interest payments would start from October 2019. Nevertheless, the promoters' undertaking to the bank to meet any shortfall in debt servicing during the entire tenure of the loan lends comfort to its overall liquidity profile. Besides the term loans, the company has working capital facility of Rs. 60 crore, out of which Rs. 56.8 crore was utilised as on August 31, 2019.

Rating sensitivities

Positive triggers – ICRA may upgrade JSWPPL’s rating if the company is able to ramp up its capacity in the decorative paint segment to optimal levels and maintain a debt service coverage ratio (DSCR) of more than 1.4 times on a sustained basis.

Negative triggers – Negative pressure on JSWPPL’s rating may arise if the company’s profitability remains under pressure due to intense competition from other established players and/or the DSCR remains below 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
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 COD was achieved in March 2019.

Key financial indicators

Standalone financials	FY2018	FY2019 (Prov.)
Operating Income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	-1.0	-3.0
OPBDIT/OI (%)	-	-
RoCE (%)	-	-
Total Outside Liabilities/Tangible Net Worth (times)	-	2.6
Total Debt/OPBDIT (times)	-	-108.9
Interest Coverage (times)	-	-
DSCR	-	-

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: JSWPPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					26-Sep-2019			
1	Cash credit	Long Term	60.00	-	[ICRA]BBB-(Stable)	-	-	-
2	Letter of credit	Short Term	20.00	-	[ICRA]A3	-	-	-
3	Loan Equivalent Risk (LER)	Short Term	5.00	-	[ICRA]A3	-	-	-
4	Unallocated	Short Term	25.00	-	[ICRA]A3			

*o/s as on March 31, 2019

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	60.00	[ICRA]BBB- (Stable)
NA	Letter of credit	-	-	-	20.00	[ICRA]A3
NA	LER	-	-	-	5.00	[ICRA]A3
NA	Unallocated	-	-	-	25.00	[ICRA]A3

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