
Rating Rationale for Geetanjali Trading and Investments Private Ltd's (GTIPL) proposed structured secured Non Convertible Debenture (NCD) Issues of: (1) ₹ 100 crore with tenure of 13 months & (2) ₹ 100 crore with tenure of 15 months

NCD Issue Rating: BWR AAA(SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR AAA(SO) (Pronounced BWR Triple A Structured Obligation) to **Geetanjali Trading and Investments Private Ltd's (GTIPL)** proposed ₹100 crores structured secured NCD issue with tenure of 13 months and proposed ₹100 crores structured secured NCD issue with tenure of 15 months. 'BWR AAA (SO)' stands for an instrument that is considered to offer BEST credit quality / safety in terms of timely servicing of principal and interest obligations. The rating factors, inter alia, the underlying security in the form of pledge of the equity shares of the Asian Paints Ltd., fundamentals of Asian Paints, its share price performance, and quality of structure incorporated to secure both the NCD.

BWR has essentially relied upon the Term sheet outlining the structure of the deal, audited financial results of GTIPL & Asian Paints and information and clarification provided by GTIPL.

Background: *Geetanjali Trading and Investments Private Limited (GTIPL)* is a 100% promoter company belonging to Ashwin Dani group. Company is purely a trading and investment company and holds 14.05% stake in Asian Paints. Ashwin Dani group includes Geetanjali Trading and Investments Private Limited, Gujarat Organics Limited, Omega Properties Private Limited, Mr. Ashwin Dani, Mrs. Ina Dani, Mr. Jalaj Dani, Mr. Hasit Dani, Mr. Malav Dani, Dani Finlease Limited, and S.C.Dani Research Foundation. Total Ashwin Dani group's stake in Asian Paints is 19.55% as on June 30th 2010.

Currently GTIPL has pledged 56.74% of its total holding in Asian Paints. Company has 4 directors on board, Mrs. Ina Dani, wife of Mr. Ashwin Dani (33% stake in GTIPL) and MD of this company. Other directors are Mr. Ashwin Dani, Mr. Malav Dani and Mr. Jalaj Dani.

Structure: Geetanjali Trading and Investments Pvt Ltd (GTIPL) is raising ₹200 cr through two different NCD's as follows:

1. ₹ 100 Crores with tenure of 13 months
2. ₹ 100 Crores with tenure of 15 months

Both NCDs are secured by way of pledge of fully paid up, unencumbered, freely transferable equity shares of *Asian paints Limited*, having market value of 2 times of outstanding obligation by the Issuer or the security provider. There shall be a charge on the amount placed in cash with the Debenture Trustee on account of any cash top-up. As an additional security, Post Dated Cheques (PDCs) on behalf of the issuing company for the entire principal amount of the Debentures and interest thereon will be deposited with the Debenture Trustee. IDBI Trusteeship services limited are the Debenture Trustee to both the issues.

Purpose and Repayment: The NCD is being raised for General Corporate Purposes and Promoters will be increasing their stake in Asian Paints through GTIPL. The interest payment for both NCD's are back ended. There will be bullet repayment for Interest and Principal at maturity, by way of refinancing, either by fresh borrowings or rollover or by taking unsecured loan from Promoter.

Facility Cover: Required Collateral Cover is 2x of the Facility amount i.e. ₹. 400 Cr worth of Asian Paints shares will be pledged.

- The top-up will be triggered below 2x and the Issuer shall be obliged to provide top-up of Underlying Shares within 2 business days of any such dip in Security Cover
- Cash top-up in case the Share Portion of the aggregate Security Cover dips below 1.6x of the Outstanding Amount of the Debentures
- If the price of the pledged share of Asian paints falls more than 30% from the Inception Price or from the price on the date of release, whichever is applicable; the Issuer shall be obliged to provide top-up of Underlying Shares within 2 business days of such fall in share Price such that the aggregate Security Cover increases to 2.25 times of the Outstanding Amount of the Debentures
- If the price of the pledged share of Asian paints falls more than 50% from the Inception Price or from the price on the date of release, whichever is applicable; the Issuer shall be obliged to provide top-up of Underlying Shares within 2 business days of such fall in share Price such that the aggregate Security Cover increases to 2.75 times of the Outstanding Amount of the Debentures

- In case the borrowing of the Ashwin Dani Group is more than 35% of the market value of shares held by Ashwin Dani Group (currently 19.9% holding representing 5000 cr mkt cap), then the Issuer shall prepay to the debenture holders atleast pro-rata .

Event of Default: As per term sheet, The ‘event of default’ would be failure to pay the amounts due under the NCDs, any breach of covenants, failure for share or cash top-up, invalid security or loss of lien on collateral, unlawfulness or unenforceability of finance or security, Repudiation of any Transaction Document, Illegality for the Issuer to perform any of its obligations under the Transaction Document, The withdrawal, failure of renewal, or failure to grant any statutory or regulatory approval in any relevant jurisdiction for the Issue or any Security, Delisting of the Underlying Shares or any action by any exchange to delist the Underlying Shares, or issuing an order to cease trading in Underlying Shares or suspension of trading in Underlying Shares for any reason whatsoever or shifting of the Underlying Shares to trade segment by any stock exchange, Any material act of fraud, embezzlement, misstatement, misappropriation or siphoning off of the Issuer/APL funds or revenues or any other act having a similar effect being committed by the management or an officer of the Issuer/APL, Representations or Warranties are found to be untrue or misleading when made, Cross default with any other financial indebtedness of the Issuer or any other Promoter Companies, Winding up of the Issuer, including initiation of any proceedings for winding up or for attachment, Any material adverse event, as defined in the Transaction Documents.

Background - Asian Paints:

Asian Paints Ltd (APL) was started in 1942, and is the largest paint company in India and is ranked among the top 10 decorative paint companies globally. APL has an integrated network with 22 paint manufacturing facilities across 17 countries. APL together with its subsidiaries has a strong market reach servicing consumers across 65 countries. The company is the undisputed leader in the Indian paints market with 55% market share of the organized segment. Organised segment constitutes over 60% of total market. APL has installed capacity of 444150 Kilo Liters as on FY10 and capacity utilization 92.6%. Company’s Installed capacity is been growing by ~9% each year since last 3 years.

Asian Paints has 13 directors on board of which 7 are Independent Directors. Mr. P.M Murthy is MD&CEO of company. Promoter and promoter group holds 50.62% stake in company, 15.49% is with FII, 12.3% with DII and remaining stake is with public.

Operations:

APL comprises of 3 business divisions, viz,

1. **Decorative business** – This segment comprises of decorative paints for interior and exterior walls, metal and wood surfaces. Here, APL offers a range of services including home and large projects painting solutions, colour selection etc. The segment accounts for 75% of overall paint market in India
2. **Industrial Operations** – This segment includes Industrial liquid paints for protective coatings, floor coatings, road markings and powder coatings. Growth in the domestic automotive sector and white goods has helped in this segments growth.
3. **International Operations** – Company has operations in 17 countries; however, most of the subsidiaries were impacted by global slowdown. Nepal, Bangladesh and Egypt performed well. In FY10, APL also divested stake in its loss making subsidiaries in Malaysia, Thailand, Hong Kong and in China (in April 2010)

APL has a very strong distribution network spanning 30,000 distribution points. The Company has done various innovations in expanding its network and to increase its brand equity. Following are some of the initiatives taken to increase customer participation in whole buying process:

1. Color world outlets: With a set of bases and colourants, manufactured and transported throughout the supply chain, Asian Paints provided a choice of innumerable shades to the customer through a technology of tinting at the last retail store
2. Color ideas: New chain of stores, where the paint dealer shops are transformed from traditional outlets to modern with painted panels and finishes like Signature stores retail outlets
3. Colour Next2010: Collection of 15 shades predicted to be the trendiest and most happening colours in decor space in 2010
4. Kids World: company offers painting designs for Kids Rooms as well as Kids Corners

Asian Paints share price analysis:

Table 1: Key data

CMP *	2654.5
1yr high	2655.01
1yr low	1308.82
Mkt Cap (Cr)	25666
Free Float	49.38%
3 mth volatility	14.07%
1 Yr volatility	28.13%

* As on 13th August, 2010

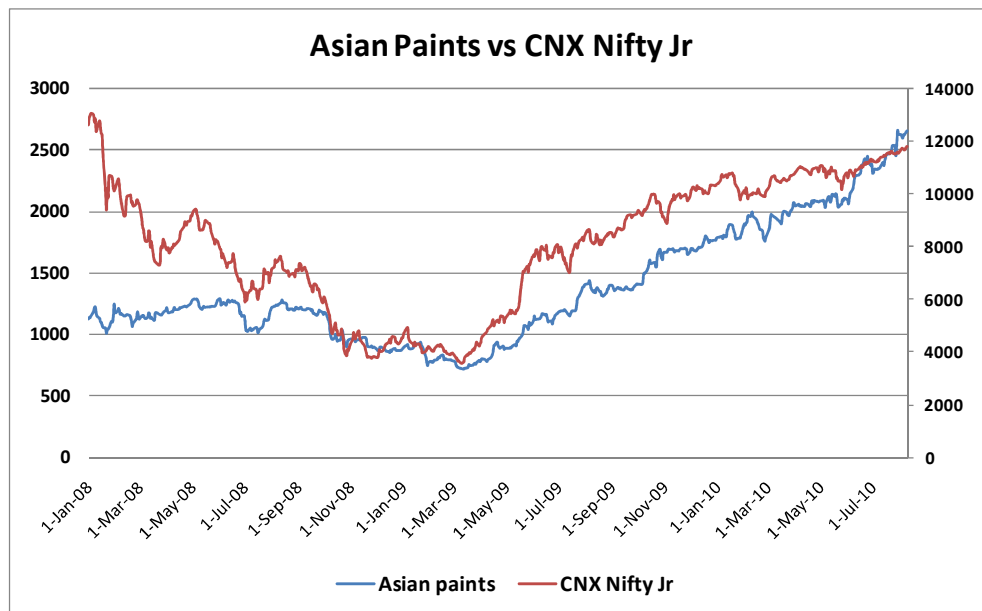
Table 2: Turnover

	Value(in ₹ Lakhs)	Volume (no of shares)
6 mth average volume	1337.85	59900.42
1 yr Average Volume	964.20	47988.01
1 year max	275.80	636958.00
1 year min	0.43	2612

Table 3:

Asian Paints stock has shown satisfactory and stable performance in past few years. The tangible book value per share has grown from 76.2/share in FY07 to 174.4/share in FY10. Also company has consistently given better RoE in past few years

	FY07	FY08	FY09	FY10
RoE	36.0%	43.7%	35.0%	50.8%
EPS growth (%)		45.6%	-2.4%	109%
Tangible BVPS	76.2	97.7	120.1	174.4
Price/Book	--	--	--	15.3x
P/E	--	--	--	33.0x



Asian Paints has total 9.59 cr shares of which GTIPL currently holds 1.34 Cr (14.05% stake). Of this 56.74% stake is already pledged and ~58.3 lakhs shares are available for further pledging. In case there is fall in Asian Paints share price the issuer will pledge further shares as per various clauses in term sheet (explained in facility cover section). We believe the available shares can take care of ~ 50% fall in share price, if there is no more subsequent pledge of shares after this NCD issue.

Table 4: Key Financials – GTIPL (in ₹ Cr)

Profit & Loss	2010	2009
Dividend (Gross)	26.7	22.7
Other Income	0.2	1.1
Total Income	26.9	23.8
Admin exp	2.1	3.3
Financial Expenses	64.2	49.9
Depreciation	0.0	0.0
PAT	(39.4)	(29.4)
Financial Position	2010	2009
Share Capital	1.4	50.6
Reserves & Surplus	276.2	281.4
Share Application Money	-	49.3
Net worth	277.6	332.0
Secured Loans	606.9	448.9
Unsecured Loans	23.1	6.0
Preference Share Capital	1.7	1.7
Total Loans	631.7	456.6
Total Funds Employed	909.3	788.6
Net Fixed Assets	0.2	0.3
Investments	906.6	785.8
Current Assets	5.9	5.0
Current Liabilities	3.4	2.5
Total Funds Deployed	909.3	788.6
<i>No of Shares</i>	<i>1,421,584</i>	<i>1,250,200</i>

Table 5: Key Financials – Asian Paints Ltd.

	2007	2008	2009	2010
Income from core operations (in ₹ Cr)	3,669.97	4,404.33	5,463.23	6,680.94
EBITDA (in ₹ Cr)	478.06	658.23	669.40	1,227.62
PAT (in ₹ Cr)	280.44	429.64	421.75	881.83
Depreciation (in ₹ Cr)	61.14	59.17	74.38	83.56
Capital Structure				
Net worth (in ₹ Cr)	777.79	982.37	1203.17	1709.98
Debt Funds (in ₹ Cr)	306.17	275.21	308.62	229.23
Debt/Tangible Equity	0.47	0.33	0.32	0.16
Profitability				
EBITDA/Core Income	13.03%	14.95%	12.25%	20.75%
PAT/Core Income	7.64%	9.75%	7.72%	13.46%
ROCE	38.46%	47.64%	39.36%	64.76%
Coverage				
Interest Coverage Ratio	25.28	31.11	25.43	47.04
DSCR	1.46	2.42	1.81	5.21
Liquidity				
Current Ratio	1.10	1.00	1.13	0.90
Net Cash Accruals to total debt	0.59	1.28	0.81	2.63

Rating Outlook

The APL stock has performed well in the past and looking at the domestic economy fundamentals, we believe increasing housing and auto car sales will help decorative paints segment to grow, thereby resulting in overall improved company performance.

However, there can be a situation of some low probability events occurring in the economy which can adversely affect the stock market and consequently the share prices of APL. In such an event, the issuer could fall short of additional shares to be pledged or may not have enough cash for top up, which may result in default and compel the Trustee to enforce the securities. Looking at the past one year average volume traded in APL shares we believe at any point of time it will take more than 30 days to sell the shares in the market. Enforcement of security on behalf of debenture holders within specified time of occurrence of an event of default is also a function of effectiveness of the Debenture Trustee.

We believe the Rating in this case is mainly a function of APL's performance in the stock market and effective monitoring of structure and share price by the Debenture Trustee.

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Annexure 1: Statement of Financial Position: Asian Paints

₹Cr

	2006-07	2007-08	2008-09	2009-10
FUNDS EMPLOYED				
Share Capital	95.92	95.92	95.92	95.92
Reserves and Surplus	681.87	886.45	1,107.25	1,614.06
Networth	777.79	982.37	1203.17	1709.98
Secured Loans	121.1	121.12	103.7	63.7
Unsecured Loans	185.07	154.09	204.92	165.53
Total Loan Funds	306.17	275.21	308.62	229.23
Deferred Tax Liability (Net)	26.79	39.08	53.31	56.23
Minority Interest	60.08	57.37	75.57	94.45
Total	1,170.83	1,354.03	1,640.67	2,089.89
APPLICATION OF FUNDS				
Goodwill on consolidation	46.86	44.35	50.55	36.73
Net Block	479.38	577.56	813.03	872.82
Capital Work in Progress	13.78	114.18	92.11	407.23
Investments	192.72	276.75	78.4	624.11
Interest accrued on investments	0.03	0.09	0.55	0.21
Inventories	598.01	714.01	768.95	955.88
Sundry debtors	420.61	460.33	571.92	542.52
Cash and Bank Balances	105.39	110.71	210.37	105.83
Other Current Assets	69.36	73.27	49.12	64.63
Loans and Advances	97.93	153.07	197.8	174.62
Total Current Assets	1,291.33	1,511.48	1,798.71	1,843.69
Current Liabilities	787.04	992.30	1,014.68	1,379.65
Provisions	66.2	177.89	177.45	315.04
Total Current Liabilities	853.24	1170.19	1192.13	1694.69
Net Current Assets	438.09	341.29	606.58	149.00
Total	1,170.83	1,354.03	1,640.67	2,089.89
<i>Wt avg no of shares</i>	<i>95919779</i>	<i>95919779</i>	<i>95919779</i>	<i>95919779</i>
<i>Tangible BVPS</i>	<i>76.20</i>	<i>97.79</i>	<i>120.16</i>	<i>174.44</i>

Annexure 2: Statement of Profit and Loss: Asian Paints

₹Cr

	2006-07	2007-08	2008-09	2009-10
Net Sales	3,669.97	4,404.33	5,463.23	6,680.94
Other income	37.25	61.95	51.68	140.5
Total Income	3,707.22	4,466.28	5,514.91	6,821.44
Material Cost	2,199.40	2,577.64	3,370.64	3,757.96
Employee Cost	262.04	306.66	371.52	436.28
Manufacturing, administrative, selling and distribution expenses	730.47	861.8	1,051.67	1,259.08
Total Operating Expenditure	3,191.91	3,746.10	4,793.83	5,453.32
EBITDA	478.06	658.23	669.40	1,227.62
Less: Depreciation	61.14	59.17	74.38	83.56
EBIT	416.92	599.06	595.02	1,144.06
Less: Interest	18.91	21.16	26.32	28.47
Less: Exceptional Item	7.76	6.84	1.24	1.15
PROFIT BEFORE TAX	389.85	571.06	567.46	1,114.44
Less: Provision For Taxation				
Current Tax	148.31	184.79	179.34	373.18
Deferred Tax	-2.88	10.56	16.32	5.54
Fringe Benefit Tax	4.81	6.43	7.36	0
Tax Provision for earlier years	-3.58	1.59	-5.63	-5.61
PROFIT AFTER TAX	280.44	429.64	421.75	881.83
Wt average no of shares	95919779	95919779	95919779	95919779
Diluted EPS	29.30	42.66	41.61	87
<i>Growth in Net Sales</i>		20.01%	24.04%	18.17%
<i>Growth in expenses</i>		17.36%	27.97%	6.73%
<i>Growth in EBITDA</i>		37.69%	1.70%	100.08%
<i>Growth in PAT</i>		53.20%	-1.84%	106.10%
<i>OPM</i>	13.03%	14.95%	12.25%	20.75%
<i>NPM</i>	7.64%	9.75%	7.72%	13.46%