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## **Rating Rationale for Geetanjali Trading and Investments Private Ltd's (GTIPL) proposed structured secured Non Convertible Debenture (NCD) Issue of ₹100 Crores with tenure of 13 months**

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**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. '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 15.24% stake in Asian Paints (as on 27<sup>th</sup> Sept 2010). 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 20.64% as on Sept 27<sup>th</sup> 2010.

As on date, GTIPL has pledged 66.26% of its total holding in Asian Paints and has total borrowings of 965Cr on its books. 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 ₹100 cr through NCD with tenure of 13 months. NCD is 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. As per term sheet the Issuer shall also create a first pari passu mortgage on immovable property to be acquired by it within a period of 90 days from the Deemed Date of Allotment. IDBI Trusteeship services limited are the Debenture Trustee to this issue.

**Purpose and Repayment:** The NCD is being raised for General Corporate Purposes and buying Asian Paints shares. Promoters will be increasing their stake in Asian Paints through GTIPL. The interest payment for NCD is 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. ₹ 200 Cr worth of Asian Paints shares will be pledged. For calculating the Share Price for the purposes of the Security Cover as on the Deemed Date of Allotment, the lower of (a) the average closing price of Underlying Shares on NSE for the last 3 months or (b) the last closing market price on NSE, will be considered.

For calculating the Share Price for the purposes of the Security Cover on a day other than on the Deemed Date of Allotment, the same shall be calculated as the lower of (a) the last closing market price of the Underlying Shares on the National Stock Exchange (NSE) or (b) the average of the closing price for the Underlying Shares on NSE for the last 15 working days of NSE.

- 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

**Other Covenants:**

- 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 20.64% holding representing ~5500 cr mkt cap), then the Issuer shall prepay to the debenture holders atleast pro-rata.
- Aggregate pledged shares of APL should not exceed 14.5% of aggregate share capital of APL, failing which issuer will have to deposit amount in cash top up account to such an extent that aggregate no of shares pledged remain below 14.5%. Currently aggregate no of shares pledged are 9.98% of total Asian Paint shares
- If (i) on a Trading Day, if intra-day the share price of APL falls by more than 25% (but less than 40%) as compared to the opening share price on such Trading Day or (ii) on any Trading Day, the share price of APL falls by more than 25% (but less than 40%) over the previous Trading Day's closing price, the Issuer shall arrange for a mandatory redemption of the NCDs within the next 2 (two) Business Days
- However, if on such Trading Day or during the following 2 Trading Days, the share price of APL falls in aggregate by 40% or more as compared to higher of the opening share price on such Trading Days or previous Trading Day's closing share price respectively, or (iii) if the Issuer fails to redeem the Debentures within 2 Business Days as stated in this clause (ii) and coupled with an event of a further 5% fall in the price of Shares, the Debenture Trustee is empowered to immediately and without reference or notice to the Pledgors/ Issuer, dispose of part or whole of the shares pledged by sale or otherwise in the manner and to the extent it deems fit.

**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. As on 30<sup>th</sup> June 2010 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 *	2778
1yr high	2887.19
1yr low	1606.21
Mkt Cap (Cr)	27010
Free Float	49.38%
3 mth volatility	13.84%
1 Yr volatility	27.68%

\* As on 27<sup>th</sup> September, 2010

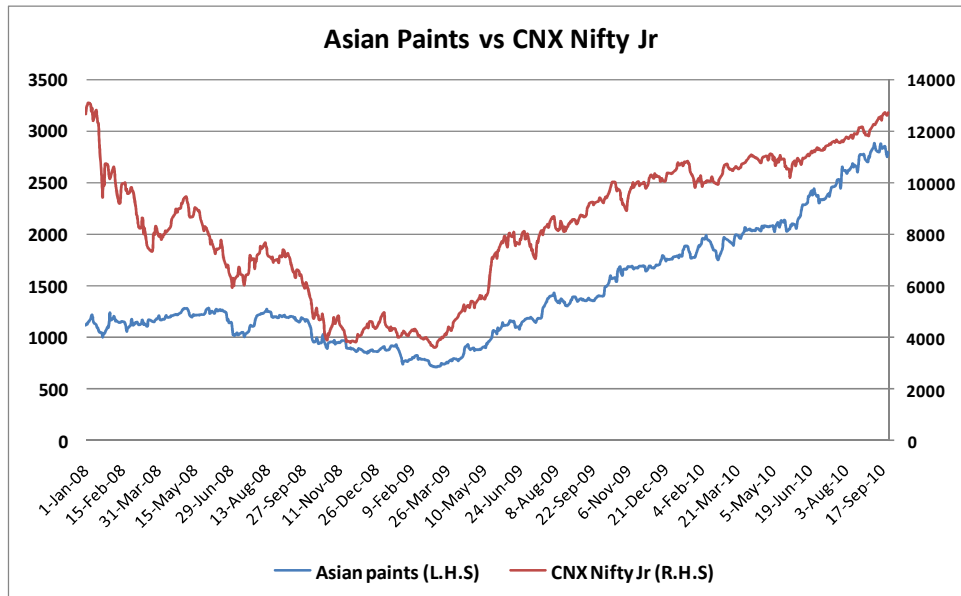
**Table 2: Turnover**

	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 1.46 Cr (15.24% stake). Of this 66.26% stake is already pledged and ~49.3 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)

<b>Profit &amp; Loss</b>	<b>2010</b>	<b>2009</b>
Dividend (Gross)	26.7	22.7
Other Income	0.2	1.1
<b>Total Income</b>	<b>26.9</b>	<b>23.8</b>
Admin exp	2.1	3.3
Financial Expenses	64.2	49.9
Depreciation	0.0	0.0
<b>PAT</b>	<b>(39.4)</b>	<b>(29.4)</b>
<b>Financial Position</b>	<b>2010</b>	<b>2009</b>
Share Capital	1.4	50.6
Reserves & Surplus	276.2	281.4

Share Application Money	-	49.3
<b>Net worth</b>	<b>277.6</b>	<b>332.0</b>
Secured Loans	606.9	448.9
Unsecured Loans	23.1	6.0
Preference Share Capital	1.7	1.7
<b>Total Loans</b>	<b>631.7</b>	<b>456.6</b>
<b>Total Funds Employed</b>	<b>909.3</b>	<b>788.6</b>
Net Fixed Assets	0.2	0.3
Investments	906.6	785.8
Current Assets	5.9	5.0
Current Liabilities	3.4	2.5
<b>Total Funds Deployed</b>	<b>909.3</b>	<b>788.6</b>
<i>No of Shares</i>	<i>1,421,584</i>	<i>1,250,200</i>

**Table 5: Key Financials – Asian Paints Ltd.**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
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
<b>Capital Structure</b>				
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
<b>Profitability</b>				
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%
<b>Coverage</b>				
Interest Coverage Ratio	25.28	31.11	25.43	47.04
DSCR	1.46	2.42	1.81	5.21
<b>Liquidity</b>				
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.

Currently GTIPL has 49.31 lakh shares available for pledge and after this issue ~41 lakh shares will be available (depending on share price taken for pledge of shares on deemed date of allotment). Using these shares GTIPL can cover ~80% fall in Asian Paint share price (taking 3 month average price of Rs 2614 / share as benchmark price). 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 should not take more than 31 days to sell the shares in the market (assuming that price falls by 80% from its 3 month average of Rs. 2614). 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.

**This rating is subject to total adherence of the Company to the final Information Memorandum signed by the Geetanjali Trading and Investments Pvt Ltd on 28<sup>th</sup> September 2010, as shared with Brickwork Ratings**

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Brickwork Ratings (BWR) has adopted SEBI’s standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.

## Annexure 1: Statement of Financial Position: Asian Paints

₹Cr

	2006-07	2007-08	2008-09	2009-10
<b>FUNDS EMPLOYED</b>				
Share Capital	95.92	95.92	95.92	95.92
Reserves and Surplus	681.87	886.45	1,107.25	1,614.06
<b>Networth</b>	<b>777.79</b>	<b>982.37</b>	<b>1203.17</b>	<b>1709.98</b>
Secured Loans	121.1	121.12	103.7	63.7
Unsecured Loans	185.07	154.09	204.92	165.53
<b>Total Loan Funds</b>	<b>306.17</b>	<b>275.21</b>	<b>308.62</b>	<b>229.23</b>
Deferred Tax Liability (Net)	26.79	39.08	53.31	56.23
Minority Interest	60.08	57.37	75.57	94.45
<b>Total</b>	<b>1,170.83</b>	<b>1,354.03</b>	<b>1,640.67</b>	<b>2,089.89</b>
<b>APPLICATION OF FUNDS</b>				
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
<b>Cash and Bank Balances</b>	<b>105.39</b>	<b>110.71</b>	<b>210.37</b>	<b>105.83</b>
Other Current Assets	69.36	73.27	49.12	64.63
Loans and Advances	97.93	153.07	197.8	174.62
<b>Total Current Assets</b>	<b>1,291.33</b>	<b>1,511.48</b>	<b>1,798.71</b>	<b>1,843.69</b>
Current Liabilities	787.04	992.30	1,014.68	1,379.65
Provisions	66.2	177.89	177.45	315.04
<b>Total Current Liabilities</b>	<b>853.24</b>	<b>1170.19</b>	<b>1192.13</b>	<b>1694.69</b>
Net Current Assets	438.09	341.29	606.58	149.00
<b>Total</b>	<b>1,170.83</b>	<b>1,354.03</b>	<b>1,640.67</b>	<b>2,089.89</b>
<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
<b>Total Income</b>	<b>3,707.22</b>	<b>4,466.28</b>	<b>5,514.91</b>	<b>6,821.44</b>
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
<b>Total Operating Expenditure</b>	<b>3,191.91</b>	<b>3,746.10</b>	<b>4,793.83</b>	<b>5,453.32</b>
<b>EBITDA</b>	<b>478.06</b>	<b>658.23</b>	<b>669.40</b>	<b>1,227.62</b>
Less: Depreciation	61.14	59.17	74.38	83.56
<b>EBIT</b>	<b>416.92</b>	<b>599.06</b>	<b>595.02</b>	<b>1,144.06</b>
Less: Interest	18.91	21.16	26.32	28.47
Less: Exceptional Item	7.76	6.84	1.24	1.15
<b>PROFIT BEFORE TAX</b>	<b>389.85</b>	<b>571.06</b>	<b>567.46</b>	<b>1,114.44</b>
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
<b>PROFIT AFTER TAX</b>	<b>280.44</b>	<b>429.64</b>	<b>421.75</b>	<b>881.83</b>
Wt average no of shares	95919779	95919779	95919779	95919779
<b>Diluted EPS</b>	<b>29.30</b>	<b>42.66</b>	<b>41.61</b>	<b>87</b>
<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%