

Rating Rationale for Geetanjali Trading and Investments Private Ltd's (GTIPL) proposed Non Convertible Debenture (NCD) Issue of ₹100 Crores with tenure of 42 months

NCD Issue Rating: BWR AAA(SO)

Outlook : Stable

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History	
						Rating as on date	Rating as on
NCD Issue	Rs 100 Cr	BWR AAA(SO) (Stable Outlook)	Assigned	NA	NA	BWR AAA(SO) (Stable)	NA
Loan Issue	Rs 300 Cr	BWR AAA(SO) (Stable Outlook)	Assigned	NA	NA	BWR AAA(SO) (Stable)	NA
NCD Issue	Rs 200 Cr	BWR AAA(SO) (Stable Outlook)	Reaffirmed	17 Aug 2010	16 Sept 2011	BWR AAA(SO) (Stable)	NA
NCD Issue	Rs 100 Cr	BWR AAA(SO) (Stable Outlook)	Reaffirmed	29 Sept 2010	28 Oct 2011	BWR AAA(SO) (Stable)	NA

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 42 months. 'BWR AAA (SO)' stands for an instrument that is considered to offer BEST credit quality 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 loan as well as 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 15.56% stake in Asian Paints (as on 14th Jan 2011). The Ashwin

Dani group comprises Geetanjali Trading and Investments Private Limited, Gujarat Organics Limited, Omega Properties Private Limited, Dani Finlease Limited, S.C.Dani Research Foundation and promoters Mr. Ashwin Dani, Mrs. Ina Dani, Mr. Jalaj Dani, Mr. Hasit Dani, and Mr. Malav Dani. As on January 14, 2011, the Ashwin Dani group has a 20.96% stake in Asian Paints.

Currently GTIPL has pledged 64.57% of its total holding in Asian Paints. Total borrowings as on January 14, 2011 are ₹1083.5 Cr of which ₹ 1072.7 Cr are secured borrowings. The company has 4 directors on board, Mrs. Ina Dani, wife of Mr. Ashwin Dani (33% stake in GTIPL) is the MD. Other directors are Mr. Ashwin Dani, Mr. Malav Dani and Mr. Jalaj Dani.

Structure: Geetanjali Trading and Investments Pvt Ltd (GTIPL) is raising ₹100 by way of NCD with tenure of 42 months. These borrowings 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. IDBI Trusteeship services limited are the Debenture Trustee to the issue.

Purpose and Repayment: The proceeds of the loan will be used for refinancing of existing loans, General Corporate Purposes and purchase of Asian Paints shares. Promoters will be increasing their stake in Asian Paints through GTIPL. There will be bullet repayment for part interest and full Principal at maturity, by way of refinancing, either by fresh borrowings or rollover or by taking unsecured loan from promoter.

Facility Cover for NCD: Required Collateral Cover is higher of (A) at least 2 times the Facility Amount and (B) 1.8 times the (Facility Amount + Fixed Redemption Coupon).

In the event the Share Price falls by more than 30% of the Initial Price, the Stipulated Security Cover required to be maintained shall be higher of (A) 2.25 times the Facility Amount, and (B) 2 times the (Facility Amount + Fixed Redemption Coupon); and

In the event the Share Price falls by more than 50% of the Initial Price, the Stipulated Security Cover required to be maintained shall be higher of (A) 2.75 times the Facility Amount, and (B) 2.5 times the (Facility Amount + Fixed Redemption Coupon).

The Initial Price shall mean the lower of the (i) the average of the volume weighted average price of the shares of the Asian Paints as quoted on NSE or BSE, whichever is higher, for a period of 30 (Thirty) days, or (ii) volume weighted average price of the shares of the Asian Paints as quoted on the NSE, or BSE, whichever is higher, 1 (One) day prior to the Execution Date / security is created (whichever is higher).

- In the event the value of Security falls by more than 10% of the relevant Stipulated Security Cover, GTIPL shall be under an obligation to pledge further shares within 2 (Two) business days, in order to ensure that the Stipulated Security Cover is maintained.
- The Company, at its option, may effect the Top Up as provided above by way of Cash Deposit.

Interest: NCD's will have quarterly fixed cash coupons of 2% of facility amount. Apart from this there will be a floating/fixed redemption coupon and EBITDA linked redemption coupons. For more detailed information investors can refer the term sheet in the Final Information memorandum

Other Covenants:

- GTIPL shall ensure that its shareholding in Asian Paints is maintained above 10% and it is 100% owned by Ashwin Dani Group
- The Ashwin Dani Group's shareholding in the Asian Paints shall remain above 15%
- In case the borrowing of the Ashwin Dani Group is more than 40% of the market value of shares held by Ashwin Dani Group (currently 20.96% holding representing ~5165 cr mkt cap, thus borrowing shall not exceed ~2066 Cr), then the Issuer shall prepay to the debenture holders atleast pro-rata.
- All the borrowings of GTPIL (including letter of comfort, any put option, guarantees etc) should not exceed 40% of the market value of the shares held by the Company in Asian Paints.

- Aggregate pledged shares of APL should not exceed 14.9% 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 14.9%. Currently aggregate number of shares pledged are 11.01% of total Asian Paint shares
- If (i) on a Trading Day, if intra-day the share price of APL falls by more than 25% 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% over the previous Trading Day's closing price, the Outstanding Amount shall automatically and without any further action, become due and payable by no later than the end of 2 (Two) business days from such trading day.

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 December 31st 2010, Promoter and promoter group holds 52.33% stake in company, 14.6% is with FII, 11.39% 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 *	2600
1yr high	3027
1yr low	1715
Mkt Cap (Cr)	24644
Free Float	47.67%
3 mth volatility	15.5%
1 Yr volatility	31.0%

* As on 28th Jan, 2011

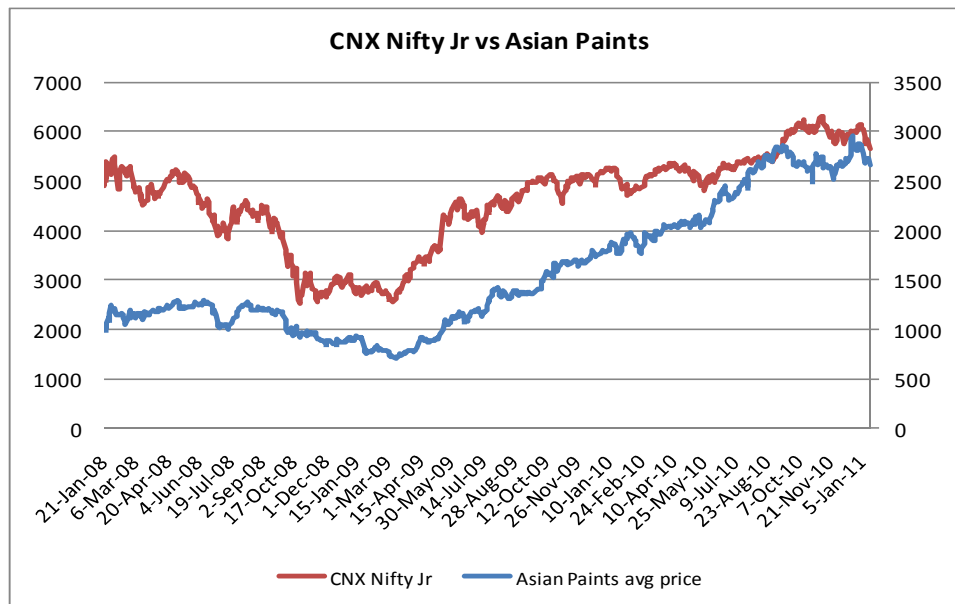
Table 2: Turnover

	Value (Cr)	Volume (no of shares)
6 mth average volume	30.95	114866.11
1 yr Average Volume	22.52	90379.16
1 year max	187.2	1026002.00
1 year min	1.55	6732.00

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 1.49 Cr (15.56% stake). Of this 64.57% stake is already pledged and ~52.8 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).

Table 4: Key Financials – GTIPL

(in ₹ Cr)

Profit & Loss	30th Sept 2010	2010	2009
Dividend (Gross)	26.9	26.7	22.7
Other Income	0.002	0.2	1.1
Total Income	26.98	26.9	23.8
Admin exp	3.5	2.1	3.3
Financial Expenses	36.16	64.2	49.9
Depreciation	0.0055	0.0	0.0
PAT	(12.7)	(39.4)	(29.4)
Financial Position	30th Sept 2010	2010	2009
Share Capital	3.15	3.15	50.6
Reserves & Surplus	263.4	276.2	281.4
Share Application Money		-	49.3
Net worth	266.5	277.6	332.0
Secured Loans	1072.7	606.9	448.9
Unsecured Loans	10.78	23.1	6.0
Preference Share Capital	-	1.7	1.7
Total Loans	1083.51	631.7	456.6
Total Funds Employed	1350.0	909.3	788.6
Net Fixed Assets	0.2	0.2	0.3
Investments	1335.6	906.6	785.8
Current Assets	16.5	5.9	5.0
Current Liabilities	2.33	3.4	2.5
No of Shares	1,421,584	1,421,584	1,250,200

Note – Besides the abovementioned proposed NCD issue, the company is also raising ₹ 300 crore by way of loan.

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.

As on 14th Jan 2011 GTIPL has 52.86 lakh shares available for pledge and after this issue ~23.31 lakh shares will be available (*depending on share price taken for pledge of shares on deemed date of allotment*). As, the company proposes to utilize its ₹ 300 Cr loan for refinancing of existing facilities, company will have to first pledged the shares for this issue and then after the loan is refinanced old shares pledged will be released. Taking these into consideration GTIPL may have ~45.48 lakh shares available for pledge if there is no subsequent issue. Using these shares GTIPL can cover ~40% fall in Asian Paint share price (taking 3 month average price of ₹ 2706.5 / share as benchmark price). might arise The past one year average volume traded in

APL shares indicates that at any point of time it may not take more than 32 trading days to sell the shares in the market assuming a fall in price by 40% from its 3 month average of ₹ 2706.50.

We believe the Rating in this case is mainly a function of Asian Paints performance in the stock market, total adherence of the issuer to the final Information Memorandum received by Brickwork Ratings on 2nd February 2011 and Debenture Trustee's effective monitoring of structure, share price movements and enforcement of security within specified time of occurrence of an event of default.

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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
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%

Annexure 3: Nine Month Performance: Asian Paints

Particulars	₹Cr	
	31-12-2010	31-12-2009
Net sales	5,741	4,804
Raw Material	3,322	2,712
Employee	339	300
Other Expenses	1,056	876
Cost of Sales	4,717	3,888
EBITDA	1,024	917
Depreciation	84	59
Interest	15	22
OPBT	925	836
Other Income	63	120
PBT	988	955
Tax	297	286
PAT	690	669