

## Rating Rationale

### Brickwork Ratings assigns 'BWR BB-' & 'BWR A4' to Bank Loan Facilities amounting to ₹ 18.36 Cr of Southfield Paints Ltd.

Brickwork Ratings has assigned the following **Ratings<sup>1</sup>** for Bank Loan Facilities sanctioned by *Bank of India* to Southfield Paints Limited: (*SPL or the 'Company'*)

Facility	Limit (₹ Cr)	Tenure	Rating
<b>Term Loan V</b>	5.71	<b>Long Term</b>	<b>BWR BB-</b> (BWR Double B Minus)  <b>(Outlook: Stable)</b>
<b>Term Loan VI</b>	2.04		
<b>Term Loan VIII</b>	5.58		
<b>Cash Credit</b> (Stocks/Book debts)	3.50		
<b>Letter of Credit</b> (Inland/Foreign DP/DA 90 Days)	1.50	<b>Short Term</b>	<b>BWR A4</b> (BWR A Four)
<b>Bank Guarantee</b>	0.03		
<b>Total</b>	<b>18.36</b>	<b>( INR Eighteen Crores &amp; Thirty Six Lakhs only)</b>	

**Note:** Term Loan amounts are Outstanding as on 9<sup>th</sup> April 2014

BWR has essentially relied upon the audited financial results of FY11, FY12, FY13, provisional financials of FY14, projected financials of FY14 and FY15 of Southfield Paints Limited and information and clarifications provided by the Company.

The Rating has, inter alia, factored the long track record of the Company, promoters experience in the manufacture of comprehensive range of industrial coatings, reputed client base and adequate gearing. The Rating is however constrained by, low scale of operations considering its existence for more than four decades, declining profits, increasing receivables days and lack of adequate hedging to cover the forex risk.

#### Background:

Southfield Paints Limited was established in the year 1972. The unit is located in Bangalore. The company is into manufacturing of a wide range of industrial coatings. It moved from the retail market to the industrial and aerospace segment in 1997. Capacity expansion was done in 2010 and foraying into the auto refinish sector happened in 2010.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

It offers a comprehensive range of liquid industrial and auto refinish paints and powder coating products in different shades and finishes. It also offers coatings and allied products custom made to specific requirements. The products are sold under the brand names SPARENZA, SOUTHANE, SOUTHGAARD, SOUTHLAC, etc.

The key management personnel are the main shareholders of the Company viz. Mr. Shivarama Sheshappa Hegde, Ms. Jayanthi Shivram Hegde and Ms. Vidya H Rai.

The products manufactured are catered to the Aerospace industry, automotive refinish market, Architectural and Consumer goods industry. The factory unit under its owned premises has an installed capacity:- Powder coating manufacturing capability of over 2000 metric tons per annum; Industrial and Auto refinish coating manufacturing capability of over 660000 liters of Paints and ancillary products per annum.

#### **Financial Performance:**

Revenue from operations has marginally increased by 2.36% from Rs.21.21 Cr in FY12 to Rs.21.71 Cr in FY13. The operating profit margin & net profit margin stand at 15.39% & 6.87% respectively for FY13.

The Net worth of the Company stands at Rs.10.38 Cr as on 31<sup>st</sup> March 2013. The Debt-equity ratio stands at 1.28 times in FY13. Total Debt of the Company stands at Rs.13.24 Crores as on 31<sup>st</sup> March 2013. For FY13, the current ratio stands at 1.33 times. Going forward, the receivable days indicate an increasing trend indicating the need for efficient management of working capital

#### **Rating Outlook:**

The Company needs to scale up its operations considering its existence in this line for more than four decades, also further needs to sustain its margins, incorporate appropriate hedging policy, efficiently manage the working capital by early realization of its debtors' thereby timely meeting its debt obligations would remain the key rating sensitivities.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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