

Osaw Industrial Products Private Limited: Assigned

| Facilities | Amount (Rs. Crore) | Ratings/Outlook |
|----------------------------------------|--------------------|----------------------------|
| Term Loan | 1.16 | SMERA BB/Stable (Assigned) |
| Working Capital Demand Loan (Proposed) | 4.96 | SMERA BB/Stable (Assigned) |
| Cash Credit* | 11.10 | SMERA BB/Stable (Assigned) |
| OD Clean EMD | 2.15 | SMERA BB/Stable (Assigned) |
| Bank Guarantee | 7.50 | SMERA A4+ (Assigned) |
| Letter of Credit | 0.25 | SMERA A4+ (Assigned) |

*Includes sub-limit of EPC of Rs.3.8 crore and Foreign Bill Purchase of Rs.3.80 crore

SMERA has assigned ratings of '**SMERA BB**' (**read as SMERA double B**) to the Rs.19.37 crore long term (fund based) and '**SMERA A4+**' (**read as SMERA A four plus**) to the Rs.7.75 crore short term (non-fund based) bank facilities of Osaw Industrial Products Private Limited (OIPPL). The outlook is '**Stable**'. The ratings derive comfort from the experienced management, established track record of operations and healthy relations with customers and suppliers. Further, the ratings note the moderate scale of operations and financial risk profile.

However, the aforementioned strengths are partially offset by the company's small scale of operations and intense competition in the scientific equipment industry. SMERA also notes the company's capital intensive operations and high dependence on tender-based orders from state government and educational institutes.

OIPPL manufactures and supplies scientific testing equipments that are widely used in the agriculture sector. The company also undertakes manufacturing and trading of educational and scientific laboratory equipments for private and government educational institutes. The company benefits from its experienced management. Mr. Ajay Sagar, Managing Director has more than three decades of experience in the company's line of business. The company has healthy relations with customers and suppliers.

The operating income continues to remain moderate evident from the compounded annual growth rate (CAGR) of 17.58 per cent over the last four years ended 2015-16. The company reported operating income of Rs.36.03 crore (provisional) in FY2015-16 against Rs.45.34 crore in FY2014-15. The moderation in operating income is driven by non-execution of orders awarded by government educational institutes. OIPPL faces intense market competition in the scientific equipment industry.

The moderate financial risk profile is marked by leverage (debt-to-equity ratio) of 0.75 times (provisional) in FY2015-16 against 1.25 times in FY2014-15, moderate interest coverage ratio of 2.12 times (provisional) in FY2015-16 against 2.77 times in FY2014-15 (refers to financial year, April 01 to March 31) and net cash accruals to total debt (NCA/TD) of 0.16 times (provisional) in FY2015-16 against 0.22 times during the previous year. The company has interest bearing unsecured loans from promoters, friends and relatives worth Rs.1.69 crore (provisional) in FY2015-16 that is subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

OIPPL's operations are working capital intensive evident from the gross current assets (GCA) of 264 days (provisional) in FY2015-16 against 260 days during the previous year. The high GCA days emanate from inventory holding and collection period of 110 days and 91 days (provisional) respectively in FY2015-16 in contrast to 117 days and 116 days respectively during the previous

Osaw Industrial Products Private Limited (OIPPL)

year. SMERA believes that over the medium term, the operations will continue to remain capital intensive considering its dealings with government organisations. The inventory period is three to four months due to multiple orders during the year.

Outlook- Stable

SMERA believes that OIPPL will continue to benefit over the medium term from its established track record and extensive industry experience of the management. The outlook may be revised to 'Positive' in case the company reports sustained and sustainable improvement in revenue and profitability profile, improvement in working capital cycle or higher than expected cash accruals. Conversely, the outlook may be revised to 'Negative' if the company registers decline in revenue, profitability or deterioration in the capital structure due to elongation of working capital cycle or undertakes any large debt funded capital expansion.

Rating Sensitivity Factors

- Efficient working capital management
- Substantial and sustainable improvement in revenue and profitability profile
- Debt funded capex

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

The Haryana-based, OIPPL incorporated in 1993 by Mr. Ajay Sagar, manufactures and supplies scientific testing equipments such as moisture meter, seed grader, seed grain analyzer used in the agricultural sector. The company also undertakes manufacturing and trading of educational and scientific laboratory equipments for private and government educational institutes. The products include intelligent timer, Newton's ring apparatus, power supply among others sold under the 'Indosaw' brand name.

OIPPL's manufacturing facilities are based in Roorkee (Uttarakhand) and Ambala (Haryana). The company is ISO 9001 and ISO 14001 certified and also exports products to UK, USA, Africa and Kenya.

For FY2014-15, the company reported profit after tax (PAT) of Rs.2.35 crore on operating income of Rs.45.34 crore, as compared with profit after tax (PAT) of Rs.1.37 crore on operating income of Rs.37.33 crore in FY2013-14. As per 12 months' provisional financials for FY2015-16, the company booked PAT of Rs.0.81 crore on operating income of Rs.36.03 crore. The net worth stood at Rs.12.80 crore (provisional) in FY2015-16 against Rs.12.32 crore a year earlier.

Contacts:

| Analytical | Business Development |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in | Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in |

ABOUT SMERA

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