

Press Release

OSAW INDUSTRIAL PRODUCTS PRIVATE LIMITED

D-U-N-S® Number: 65-051-9267

June 24, 2019



Rating Upgraded, Withdrawn, Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB / Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) to '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.14.30 crore bank facilities of Osaw Industrial Products Private Limited (OIPPL). The outlook is '**Stable**'.

Further, Acuite has withdrawn the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.4.96 crore bank facilities of OIPPL.

Acuite has reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.10.00 crore bank facilities of OIPPL. The outlook is '**Stable**'.

Also, Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.10.70 crore bank facilities of OIPPL. The outlook is '**Stable**'.

Rating upgrade reflects improving revenues, infusion of capital and reputed clientele. The operating revenues have increased to Rs.71.34 crore in FY2019 (Provisional) from Rs.41.99 crore in FY2018. This is on account of a contract received from Kendriya Vidyalaya amounting to Rs.30.00 crore. Promoters have infused capital to the tune of Rs.11.37 crore in FY2019 (Provisional). Also the company have a reputed clientele which includes Food Corporation of India (FCI), Indian Institute of Technology (IIT), Central Warehousing Corporation (CWC), etc. Further, the rating is supported by experienced management.

The Haryana-based, OIPPL incorporated in 1993 by Mr. Ajay Sagar manufactures and supplies scientific testing equipment 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 equipment 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the OIPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

OIPPL commenced operations from 1993. The company is promoted by its directors Mr. Ajay Sagar and Mr. Manisha Sagar who have experience of over two decades in the industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuite believes that the company will continue to benefit from its experienced management and established relationships with customers.

- **Increase in scale of operations and moderate profitability**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around ~25.00 percent through the last four years ended 31 March, 2019 (Provisional). The company reported revenue growth of ~70.00 percent with operating income of Rs.71.34 crore in FY2019 (Provisional) as against operating income of Rs.41.99 crore in FY2018. This is majorly due to contract of Rs.30.00 crore received from Kendriya Vidyalaya. However, revenues had declined in FY2018 from Rs.48.74 crore in FY2017. Further, though, operating margins declined from 12.86 per cent in FY2018 it stood healthy at 11.28 per cent in FY2019 (Provisional).

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth and debt protection measures and moderate gearing. The net worth of the company is moderate at Rs.18.69 crore as on 31 March, 2019 (Provisional) as against Rs.14.41 crore as on 31 March, 2018. The gearing of the company stood moderate at 1.63 times as on March 31, 2019 (Provisional) as against 1.31 times as on March 31, 2018. Total debt of Rs.30.54 crore consists of term loan of Rs.0.70 crore, unsecured loans from promoters Rs.11.37 crore and working capital facility of Rs.18.47 crore as on 31 March, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.99 times as on 31 March, 2019 (Provisional) as against 1.92 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.92 times in FY2019 (Provisional) as against 2.57 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.17 times as on 31 March, 2019 (Provisional) as against 0.14 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.83 times in FY2019 (Provisional) as against 2.29 times in FY2018.

Acuite believes that the company will be able to maintain its financial risk profile in absence of any debt funded capex plan.

Weaknesses

- **Intensive working capital operations**

The company has intensive working capital operations marked by high Gross Current Assets (GCA) of 230 days in FY2019 (Provisional) as against 287 days in FY2018. The inventory and debtor levels stood at 76 and 141 days in FY2019 (Provisional) as against 97 and 156 days in FY2018, respectively. However, the average utilisation of bank limits stood at ~50 per cent in the last six months ending May, 2019. Acuite believes that the working capital requirements will continue to remain intensive over the medium term on account of inventory required to be maintained to cater to the spot orders and also due to time taken by the customers to give payments.

- **Competitive and fragmented industry**

The company is engaged in manufacturing and supplying of scientific testing equipment. The particular sector is marked by the presence of various mid to big size players. The company faces competition from the other players in the sectors. Company also bid for government tenders. Hence, risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management is operating in this industry for over two decades.

Liquidity Position

OSPPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.63 to 4.06 crore during the last four years through 2018-19 (Provisional), while its maturing debt obligations were in the range of Rs.0.31 crore over the same period. The company's operations are working capital intensive as marked by high gross current asset (GCA) days of 230 in FY2019 (Provisional). However, the cash credit limit in the company remains utilized at ~50 percent during the last 6 months period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.1.62 crore as on March 31, 2019 (Provisional). The current ratio of the company stands at 1.98 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual. Further, the receipt of new contracts by the company will be a key rating sensitivity.

Outlook: Stable

Acuite believes that the company will maintain 'Stable' outlook over the medium term from the industry experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	71.34	41.99	48.74
EBITDA	Rs. Cr.	8.05	5.40	5.23
PAT	Rs. Cr.	3.11	1.69	1.56
EBITDA Margin	(%)	11.28	12.86	10.73
PAT Margin	(%)	4.37	4.02	3.21
ROCE	(%)	17.27	13.02	15.75
Total Debt/Tangible Net Worth	Times	0.64	0.63	1.37
PBDIT/Interest	Times	2.92	2.57	2.45
Total Debt/PBDIT	Times	2.37	2.38	3.68
Gross Current Assets (Days)	Days	230	287	239

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Nov-2018	Term Loan	Long Term	1.16	ACUITE BB (Indicative)
	Working Capital Demand Loan	Long Term	4.96	ACUITE BB (Indicative)
	Cash Credit	Long Term	11.10	ACUITE BB (Indicative)
	OD Clean EMD	Long Term	2.15	ACUITE BB (Indicative)
	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Indicative)
	Letter of Credit	Short Term	0.25	ACUITE A4+ (Indicative)
29-Sep-2017	Term Loan	Long Term	1.16	ACUITE BB / Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	4.96	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	11.10	ACUITE BB / Stable (Reaffirmed)
	OD Clean EMD	Long Term	2.15	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	0.25	ACUITE A4+ (Reaffirmed)
19-Jul-2016	Term Loan	Long Term	1.16	ACUITE BB / Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	4.96	ACUITE BB / Stable (Assigned)

Cash Credit	Long Term	11.10	ACUITE BB / Stable (Assigned)
OD Clean EMD	Long Term	2.15	ACUITE BB / Stable (Assigned)
Bank Guarantee	Short Term	7.50	ACUITE A4+ (Assigned)
Letter of Credit	Short Term	0.25	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
Working capital demand loan	Not Applicable	Not Applicable	Not Applicable	4.96	ACUITE BB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.10	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
OD Clean EMD	Not Applicable	Not Applicable	Not Applicable	2.15	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	9.75	ACUITE A4+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.70	ACUITE BB+ / Stable (Assigned)

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About Acuite Ratings & Research:

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