SMERA RATINGS LIMITED

Ostern Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	31.00*	SMERA BBB/Stable (Assigned)
Term Loan	21.32**	SMERA BBB/Stable (Assigned)
Letter of Credit	5.60	SMERA A2 (Assigned)
Bank Guarantee	1.50	SMERA A2 (Assigned)
Proposed (Fund/Non Fund)	0.58	SMERA BBB/ Stable/SMERA A2 (Assigned)

**Fully interchangeable as Foreign Currency Denominated Loan/Export Packing Credit/ pre-shipment credit in foreign currency and Buyers' credit to the extent of Rs.16.50 crore*
*** Fully interchangeable as foreign currency term loan*

SMERA has assigned long-term rating of **'SMERA BBB' (read as SMERA triple B)** and short-term rating of **'SMERA A2' (read as SMERA A two)** on the above mentioned bank facilities of Ostern Private Limited (OPL). The outlook is **'Stable.'** The ratings derive strength from the experienced management, long track record of operations and geographically diversified customer base. The ratings also draw support from the healthy financial risk profile and comfortable liquidity position. However, the ratings are constrained by the working capital intensive operations and exposure of profit margins to fluctuations in forex rates.

OPL, incorporated in 1978 is engaged in the manufacture of writing instruments and thin walled containers. The company is headed by Mr. Lalit Agrawal, Director, with around two decades of experience in the writing instruments industry. The company manufactures ball pens, gel pens, markers among others and caters to a geographically diversified customer base spread across 35-40 countries including Africa, Europe and Asia.

OPL has a healthy financial risk profile marked by net worth of Rs.39.31 crore as on March 31, 2016 including unsecured loan from promoters of Rs.12.00 crore that has been treated as quasi equity by SMERA. The said amount would be maintained in the business over the medium term. The gearing is comfortable at 1.20 times as on March 31, 2016 with interest coverage ratio (ICR) of 2.30 times in FY2016. The debt service coverage ratio (DSCR) stood at 1.38 times in FY2016 while the total debt of Rs.47.04 crore as on March 31, 2016 consists of short term working capital borrowing of Rs.29.27 crore. OPL has a comfortable liquidity position marked by healthy net cash accruals of Rs.6.91 as on March 31, 2016.

However, the working capital intensive operations are marked by gross current asset (GCA) days of ~183 days as on March 31, 2016. This is mainly due to inventory and debtor days of 149 and 35 days respectively in FY2016. Moreover, the company earns around ~40-45 per cent of its revenue from exports to North and South America, Europe, UK, Africa and Asia, exposing the company's unhedged exposure to forex fluctuation risk.

OPL plans to increase its pen manufacturing capacity from 2.00 million to 2.50 million pieces per day. The estimated project cost is Rs.16.85 crore with Rs.5.85 crore to be funded by promoters and the balance through a term loan. New machines are expected to be functional by March 2017 and contribute around 15-20 per cent growth to revenues. SMERA believes that the capex will not impact the healthy financial risk profile of the company.

Rating Sensitivity Factors

- Sustained growth in revenues and profitability
- Movement in capital structure and coverage indicators
- Efficient working capital management

Outlook-Stable

SMERA believes that the outlook of OPL will remain stable on account of its experienced management and healthy financial risk profile. The outlook maybe revised to 'Positive' in case the company sustains healthy revenue momentum and profitability while improving on the working capital management. The outlook maybe revised to 'Negative' in case of deterioration in the financial risk profile or if the company undertakes higher than envisaged debt funded capex. .

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

The Kolkata-based OPL, incorporated in 1978, is engaged in the manufacture of writing instruments and thin walled containers. The company, headed by Mr. Lalit Agrawal and Jagadish Agrawal, Directors operates through its three manufacturing units at Dhulagarh, Hanspukur and Falta-SEZ (Kolkata). The head office is located at New Alipore (Kolkata).

For FY2015–16, the company reported profit after tax (PAT) of Rs.2.38 crore on operating income of Rs.125.02 crore, as compared with net profit of Rs.1.77 crore on operating income of Rs.104.21 crore in FY2014–15. The net worth stood at Rs.39.31 crore as on March 31, 2016 as compared with Rs.36.74 crore a year earlier.

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.