

Press Release

Ostern Private Limited (OPL)

08 February, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 60.00 Cr.
Long Term Rating	SMERA BBB /Outlook: Stable
Short Term Rating	SMERA A2

*Refer annexure for details

SMERA has reaffirmed the 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 Rs. 60.00 crore bank facilities of Ostern Private Limited (OPL). The outlook is '**Stable**'.

The Kolkata-based Ostern Private Limited (OPL) incorporated in 1978 is engaged in the manufacturing of writing instruments (ball pens, gel pens, markers, highlighters etc) and thin walled containers since 1998. Promoted by Mr. Jagadish Agarwal and Mr. Lalit Agrawal, OPL is ISO 9001:2008 certified with manufacturing facilities at Kolkata. The installed capacity stands at 2 million pieces per day for pens and 150 MT a month for thin walled containers.

Key rating drivers

Strengths

Experienced management

The promoters, Mr. Jagadish Agarwal and Mr. Lalit Agrawal have experience of more than two decades in the abovementioned line of business. The long track record of operations has helped the company build long term relations with customers.

Above average financial risk profile

The financial risk profile is above average marked by tangible net worth of Rs. 41.45 crore as on 31 March, 2017 as against Rs. 39.31 crore as on 31 March, 2016. This includes unsecured loan of Rs.12.00 crore as on 31 March, 2017 considered as quasi equity as the same is subordinated to bank debt. The adjusted gearing stood at 1.19 times as on 31 March, 2017 as against 1.20 times as on 31 March, 2016. The debt of Rs.49.19 crore mainly consists of term loan of Rs. 18.98 crore and working capital borrowings of Rs. 30.21 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 2.31 times for FY2017 as against 2.30 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.35 times for FY2017 as against 1.38 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.67 times as on 31 March, 2017 and the previous year. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31 March, 2017 as against 0.15 times as on 31 March, 2016. Going forward, SMERA expects the company to maintain its financial risk profile in the absence of major debt funded capex plans.

Geographically diversified customer base, established distribution network

The company generates revenue from the domestic market as well as exports. The products are sold across India (except southern states) through 25 super stockists while around 50 percent revenue is earned from export to North & South America (USA, Brazil & Columbia), Europe (Turkey, Ukraine, Poland, Italy, Bulgaria etc.) among others.

Weaknesses

Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 206 days in FY2017 and 183 days in FY2016. The GCA days are mainly dominated by high inventory of 155 days in FY2017 compared to 149 days in FY2016. The average cash credit utilisation for the past six months stood at ~85 percent. SMERA believes that efficient working capital management will be crucial for the company to maintain a stable credit profile.

Foreign exchange fluctuation risk

OPL is exposed to foreign exchange fluctuation risk since 50 percent revenue is generated from exports. Since the company imports majority of its raw material, it enjoys a natural hedge which mitigates the risk to a certain extent.

Competitive and fragmented industry

OPL operates in a highly competitive and fragmented industry characterised by a large number of established brands and unorganised players affecting margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of OPL to arrive at the rating.

Outlook – Stable

SMERA believes that OPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	116.06	125.02	103.86
EBITDA	Rs. Cr.	13.60	14.07	11.49
PAT	Rs. Cr.	1.62	2.38	1.77
EBITDA Margin	(%)	11.72	11.25	11.07
PAT Margin	(%)	1.40	1.90	1.70
ROCE	(%)	9.58	11.77	10.32
Total Debt/Tangible Net Worth	Times	1.19	1.20	1.09

PBDIT/Interest	Times	2.31	2.30	2.37
Total Debt/PBDIT	Times	3.62	3.34	3.50
Gross Current Assets (Days)	Days	206	183	210

Status of non-cooperation with previous CRA (if applicable):

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
03-Nov, 2016	Cash Credit	Long Term	31.00	SMERA BBB/ Stable (Assigned)
	Term Loan	Long Term	21.32	SMERA BBB/ Stable (Assigned)
	Letter of Credit	Short Term	5.60	SMERA A2 (Assigned)
	Bank Guarantee	Short Term	1.50	SMERA A2 (Assigned)
	Proposed Bank Facilities	Short Term	0.58	SMERA A2 (Assigned)

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit #	Not Applicable	Not Applicable	Not Applicable	31.00	SMERA BBB/ Stable (Reaffirmed)
Term Loan ##	Not Applicable	Not Applicable	Not Applicable	21.32	SMERA BBB/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.60	SMERA A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A2 (Reaffirmed)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	0.58	SMERA A2 (Reaffirmed)

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

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ABOUT SMERA

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