

Press Release

Ostern Private Limited

September 30, 2019



Rating Reaffirmed and Withdrawn

| | |
|-------------------------------------|------------------------------------|
| Total Bank Facilities Rated* | Rs. 60.00 Cr. |
| Long Term Rating | ACUITE BBB /Stable (Reaffirmed) |
| Short Term Rating | ACUITE A2 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has re-affirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating to '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 60.00 crore bank facilities of Ostern Private Limited (OPL). Acuité has also withdrawn long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs 13.00 crore bank facility of OPL. The outlook is '**Stable**'.

Kolkata-based, Ostern Private Limited (OPL) was incorporated in 1978 and is engaged in the manufacturing of writing instruments (ball pens, gel pens, markers, highlighters, among others) and thin walled containers, since 1998. Promoted by Mr. Jagadish Agarwal and Mr. Lalit Agrawal, OPL is an ISO 9001:2008 certified firm with its 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Ostern Private Limited.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced promoters**

The promoters, Mr. Jagadish Agarwal and Mr. Lalit Agrawal, have an 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.

- **Comfortable financial risk profile**

The financial risk profile of the company is healthy marked by moderate net worth and gearing. The debt protection metrics stands comfortable. The net worth of the company stood at Rs. 45.25 crore as on 31 March, 2019 as compared to Rs. 43.28 crore as on 31 March, 2018. The tangible net worth also includes unsecured loans of Rs. 12.00 crore, which has been subordinated to the bank and the same has been treated as quasi equity. The Debt-equity (gearing) stood comfortable at 1.11 times as on 31 March, 2019 (Provisional) compared to 1.15 times as on 31 March, 2018. The total debt of Rs. 50.20 crore in 31 March, 2019 (Provisional) consists of long term debt of Rs. 5.95 crore, unsecured loans of Rs. 5.63 and short term debt of Rs. 38.63 crore. The interest coverage ratio and DSCR stood comfortable at 2.24 times and 1.47 times in FY2019 (Provisional) compared to 2.36 times and 1.47 times in FY2018, respectively. Acuité expects the financial risk profile to remain comfortable in the medium term.

- **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 through 25 super stockists, while around 50 per cent revenue is earned from export to North and South America (USA, Brazil & Columbia), Europe (Turkey, Ukraine, Poland, Italy, Bulgaria etc.) among others. The company sales its pens under the brand 'Goldex'.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 166 days in FY2019 (Provisional) and 175 days in FY2018. The GCA days are mainly dominated by high inventory of 106 days in FY2019 (Provisional) compared to 119 days in FY2018. The average cash credit utilisation for the past seven months stood at ~93 per cent. Acuité believes that efficient working capital management will be crucial for the company to maintain a stable credit profile.

• 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.

Rating Sensitivity

- OPL's ability to improve the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity are the key rating sensitivity.

Material Covenants

None

Liquidity Profile

The OPL's liquidity profile is adequate marked by net cash accruals of Rs. 7.39 crore in FY19 (Provisional) as against its maturing debt obligations of Rs. 2.61 crore over the same period. The operations are working capital intensive marked by gross current asset (GCA) days of 166 in FY2019 (Provisional). The current ratio of the company stood modest at 1.22 times as on March 31, 2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.35 crore as on March 31, 2019 (Provisional).

Outlook: Stable

Acuite believes that OPL will continue to benefit over the medium term from the management's experience and its long track record. The outlook may be revised to 'Positive' if OPL achieves more than envisaged sales and profitability, and improve its working capital intensity. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue or deterioration in financial risk profile in case of higher than expected working capital requirement.

About the Rated Entity - Key Financials

| | Unit | FY19 (Prov) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|-------------|---------------|---------------|
| Operating Income | Rs. Cr. | 167.28 | 152.35 | 116.06 |
| EBITDA | Rs. Cr. | 14.35 | 13.22 | 13.60 |
| PAT | Rs. Cr. | 1.79 | 1.80 | 1.62 |
| EBITDA Margin | (%) | 8.58 | 8.68 | 11.72 |
| PAT Margin | (%) | 1.07 | 1.18 | 1.40 |
| ROCE | (%) | 9.23 | 8.93 | 9.58 |
| Total Debt/Tangible Net Worth | Times | 1.11 | 1.15 | 1.19 |
| PBDIT/Interest | Times | 2.24 | 2.36 | 2.31 |
| Total Debt/PBDIT | Times | 3.47 | 3.72 | 3.58 |
| Gross Current Assets (Days) | Days | 166 | 175 | 206 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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 |
|-------------|---------------------------------|------------|------------------|--|
| 02-May-2019 | Cash Credit | Long Term | 31.00 | ACUITE BBB Issuer not co-operating* |
| | Term Loan | Long Term | 21.32 | ACUITE BBB Issuer not co-operating* |
| | Letter of Credit | Short Term | 5.60 | ACUITE A2 Issuer not co-operating* |
| | Bank Guarantee | Short Term | 1.50 | ACUITE A2 Issuer not co-operating* |
| | Proposed Bank Facility | Long Term | 0.58 | ACUITE BBB Issuer not co-operating* |
| 08-Feb-2018 | Cash Credit | Long Term | 31.00 | ACUITE BBB / Stable (Re-affirmed) |
| | Term Loan | Long Term | 21.32 | ACUITE BBB / Stable (Re-affirmed) |
| | Letter of Credit | Short Term | 5.60 | ACUITE A2 (Re-affirmed) |
| | Bank Guarantee | Short Term | 1.50 | ACUITE A2 (Re-affirmed) |
| | Proposed Bank Facility | Short Term | 0.58 | ACUITE A2 (Re-affirmed) |
| 03-Nov-2016 | Cash Credit | Long Term | 31.00 | ACUITE BBB / Stable (Assigned) |
| | Term Loan | Long Term | 21.32 | ACUITE BBB / Stable (Assigned) |
| | Letter of Credit | Short Term | 5.60 | ACUITE A2 (Assigned) |
| | Bank Guarantee | Short Term | 1.50 | ACUITE A2 (Assigned) |
| | Proposed Bank Guarantee | Short Term | 0.58 | ACUITE BBB / Stable (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 |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 39.00 | ACUITE BBB/Stable (Re-affirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE BBB/Stable (Withdrawn) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE BBB/Stable (Re-affirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 4.35 | ACUITE BBB/Stable (Re-affirmed) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE BBB/Stable (Withdrawn) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 9.10 | ACUITE A2 (Re-affirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.05 | ACUITE A2 (Re-affirmed) |

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|--|---|
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About Acuité Ratings & Research:

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