

Press Release

Ostern Private Limited

December 21, 2020

Rating Reaffirmed



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 reaffirmed the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs.60.00 crore of bank facilities of Ostern Private Limited. The outlook is '**Stable**'.

Incorporated in 1978, Ostern Private Limited (OPL) is a Kolkata based company promoted by Mr. Jagdish Agarwal and Mr. Lalit Agarwal. The company is engaged in manufacturing of writing instruments such as ball pens, gel pens, makers and highlighters among others with an installed capacity of 20 lakh pieces per day. The company is also engaged in manufacturing of thin walled containers with the installed capacity of 150 MT per month. OPL is an ISO 9001:2008 certified company with its manufacturing facility located in Kolkata.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of OPL to arrive at the rating.

Key Rating Drivers:

Strengths

Experienced management and long track record of operation

The promoters, Mr. Jagadish Agarwal and Mr. Lalit Agrawal have an experience of more than two decades in the pen manufacturing industry. Acuité believes that the company will continue to benefit from its promoter's extensive industry experience and established relationship with customers and suppliers over the medium term.

Healthy financial risk profile

The financial risk profile of the company is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs.44.14 crore in FY 2020 (Prov.) as compared to Rs 42.62 crore in FY2019. Acuité has considered Rs.10.00 crore of unsecured loan as quasi capital while calculating networth as the same is subordinated to the bank debt. The gearing of the company stood comfortable at 1.05 times as on March 31, 2020 (Prov.) when compared to 1.22 times as on March 31, 2019. This improvement in gearing is mainly on account of repayment of long term debt and improvement in networth of the company during the period. Interest coverage ratio (ICR) stood at 2.26 times in FY2020 (Prov.) as against 2.10 times in FY 2019. The debt service coverage ratio (DSCR) of the company stood at 1.44 times in FY2020 (Prov.) as compared to 1.36 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.15 times in FY2020 (Prov.) as compared to 0.12 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain comfortable backed by no major debt funded capex plan over the medium term and steady net cash accruals.

Healthy profitability margin

The operating profitability margin of the company stood at 7.61 per cent in FY2020 (Prov.) as compared to 7.83 per cent in the previous year. However, this slight deterioration in operating profitability is on account of increase in job work expenses during the period. The net profitability margin of the company stood low at 0.91 times in FY2020 (Prov.) as compared to 0.71 per cent in the previous year.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation is marked by high gross current asset (GCA) days of 167 days in FY2020 (Prov.) as compared to 169 days in the previous year. This high GCA days is on account of high inventory holding for 105 days in FY2020 (Prov.) and in FY2019 respectively. The high GCA days is also on account of high other current assets of Rs.18.13 crore in FY2020 (Prov.). The debtor days of the company stood moderate at 32 days in FY2020 (Prov.) as compared to 28 days in the previous year.

Competitive and fragmented industry

The company operates in a highly competitive and fragmented industry and faces stiff competition from various organised and unorganised players in the sector. Moreover, the profit margins and sales of the company remains exposed to inherent cyclical in the pen manufacturing industry.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals of Rs.6.70 crore as against Rs.1.19 crore long term debt obligations in FY2020 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 6.00 crore to Rs. 9.28 crore during 2021-23 against Rs.1.19 crore in FY2021, Rs.3.16 crore in FY2022 and Rs.2.03 crore in FY2023 of long term debt obligations respectively. The working capital management of the company is marked by Gross Current Asset (GCA) days of 167days in FY2020 (Prov.). The bank limit of the company has been ~50 percent utilized during the last six months ended in November 2020. Further, the liquidity of the company is also strengthened by the unencumbered cash of Rs.0.62 crore and free investment of Rs.1.09 crore with the bank. The company has been sanctioned a COVID19 emergency credit line of Rs.6.09 crore. The said loan is to be repaid over a period of 4 years, including 1 year of moratorium. The company has also availed of loan moratorium till the end of August 2020 for TL & CC. The current ratio of the company stood moderate at 1.19 times in FY2020 (Prov.) on account of high amount of outstanding payables the period. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité 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 and deterioration in the liquidity of the company.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	164.44	166.18
PAT	Rs. Cr.	1.49	1.18
PAT Margin	(%)	0.91	0.71
Total Debt/Tangible Net Worth	Times	1.05	1.22
PBDIT/Interest	Times	2.26	2.10

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
30-Sep-2019	Cash Credit	Long Term	39.00	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	5.50	ACUITE BBB/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.35	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	7.00	ACUITE BBB/Stable (Withdrawn)
	Letter of Credit	Short Term	9.10	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	2.05	ACUITE A2 (Reaffirmed)
02-May-2019	Cash Credit	Long Term	31.00	ACUITE BBB (Indicative)
	Term Loan	Long Term	21.32	ACUITE BBB (Indicative)
	Letter of Credit	Short Term	5.60	ACUITE A2 (Indicative)
	Bank Guarantee	Short Term	1.50	ACUITE A2 (Indicative)
	Proposed Bank Facility	Long Term	0.58	ACUITE BBB (Indicative)
08-Feb-2018	Cash Credit	Long Term	31.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	21.32	ACUITE BBB/Stable (Reaffirmed)
	Letter of Credit	Short Term	5.60	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A2 (Reaffirmed)
	Proposed Bank Facility	Short Term	0.58	ACUITE A2 (Reaffirmed)

***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	Note Applicable	Note Applicable	Note Applicable	6.25	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Note Applicable	Note Applicable	Note Applicable	6.00	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Note Applicable	Note Applicable	Note Applicable	6.00	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Note Applicable	Note Applicable	Note Applicable	6.50	ACUITE BBB/Stable (Reaffirmed)
Cash Credit	Note Applicable	Note Applicable	Note Applicable	14.25	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Jan 2016	9.90%	Jan 2023	3.00	ACUITE BBB/Stable (Reaffirmed)
Proposed Facility	Note Applicable	Note Applicable	Note Applicable	6.85	ACUITE BBB/Stable (Reaffirmed)
Letter of Credit	Note Applicable	Note Applicable	Note Applicable	1.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Note Applicable	Note Applicable	Note Applicable	0.55	ACUITE A2 (Reaffirmed)
Bank Guarantee	Note Applicable	Note Applicable	Note Applicable	1.50	ACUITE A2 (Reaffirmed)
Letter of Credit	Note Applicable	Note Applicable	Note Applicable	1.70	ACUITE A2 (Reaffirmed)
Bank Guarantee	Note Applicable	Note Applicable	Note Applicable	0.50	ACUITE A2 (Reaffirmed)
Letter of Credit	Note Applicable	Note Applicable	Note Applicable	5.10	ACUITE A2 (Reaffirmed)
Bank Guarantee	Note Applicable	Note Applicable	Note Applicable	0.80	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:

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