

Press Release

Ostern Private Limited

March 21, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.12	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	49.63	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	6.25	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	60.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

About the Company

Incorporated in 1978, Ostern Private Limited (OPL) is a Kolkata based company promoted by Mr. Jagdish Agarwal and Mr. Vishesh 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. OPL is an ISO 9001:2008 certified company with its manufacturing facility located in Kolkata.

Analytical Approach

Acuite 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. Jagdish Agarwal and Mr. Vishesh Agarwal, have an experience of more than two decades in the pen manufacturing industry. The long track record of operations has helped the company build long term relations with customers as well as with the suppliers.

Improved operating margins

The operating margins of the company increased to 9.41 per cent in FY2021 as compared to 7.61 per cent in FY2020. This improvement in profitability is on account of a rationalization in job work expenses along with selling expenses during the period. Acuite believes that the operating profitability of the company will be maintained at a healthy level going forward backed by steady demand of stationery goods in both the domestic and the international

market.

However, the net profitability margin of the company has been modest at 0.52 per cent in FY2021 as compared to 0.91 per cent in the previous year. The decline in net margins has been primarily due to a decrease in non- operating income during FY2021.

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 moderate at Rs.44.69 Cr in FY 2021 as compared to Rs 44.14 Cr in FY2020. Acuité has also considered unsecured loan of Rs.10.00 Cr as quasi equity, as the same amount is subordinated with bank debt. The gearing of the company stood comfortable at 0.87 times as on March 31, 2021 when compared to 1.05 times as on March 31, 2020. The improvement in overall gearing is on account of lower working capital debt utilization during the period. Interest coverage ratio (ICR) is healthy and stood at 2.19 times in FY2021 as against 2.26 times in FY 2020. The debt service coverage ratio (DSCR) of the company stood at 1.72 times in FY2021 as compared to 1.55 times in the previous year. The net cash accruals to total debt (NCA/TD) has been moderate at 0.14 times in FY2021 as compared to 0.15 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of improving net cash accruals over the near term. The networth levels of the company are however, expected to decline at the end of the current financial year due to the exit of one of their directors, Mr. Lalit Agarwal whose stake has been bought back by the existing management.

Weaknesses

Modest scale of operation

The operating revenue of the company has declined to Rs.110.44 Cr in FY2021 as compared to Rs.164.44 Cr during the previous year which can be attributed to lower demand in the domestic market as well as in international market due to the nation-wide lockdown and impact of the outbreak of Covid-19. The company has booked revenues of Rs.81.00 Cr till December 2021 (Provisional). The company has sold off their thin walled container division during September 2021 and is currently only into manufacturing of pen. Acuité believes that the revenues of the company will remain at modest levels in FY2022 on account of the sale of one of the business divisions in FY2021.

Working capital intensive nature of operations

The working capital management of the company is marked by high GCA days of 203 days in FY2021 as compared to 167 days in FY2020. This high GCA day is mainly on account of high inventory days of 110 days in FY2021 as compared to 105 days in the previous year. The debtor days of the company stood relatively low at 56 days in FY2021 as compared to 32 days in the previous year. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Rating Sensitivities

- Revenue growth over the medium term while maintaining the operating margins
- Ability to maintain the conservative capital structure
- Any material deterioration in working capital parameters

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs.5.45 Cr

as against Rs.1.19 Cr long term debt obligations in FY2021. The cash accruals of the company are projected to remain in the range of around Rs. 6.20 Cr - Rs. 7.22 crore during 2022-23 as against Rs.2.50 Cr of long term debt obligation in FY2022 and in FY2023 respectively. The bank limit of the company has been 46 percent utilized on an average during the last six months ended January 2022. The current ratio of the company stood comfortable at 1.42 times in FY2021. However, the working capital intensive nature of the company is marked by high Gross Current Asset (GCA) days of 203 days in FY2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of steady cash accruals against the moderate 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 is able to generate higher than expected revenues and profitability, while improving its working capital intensity. Conversely, the outlook may be revised to 'Negative' if the company is unable to revert to its earlier revenue levels or in case of a deterioration in financial risk profile due to higher than expected working capital requirements of the company.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	110.44	164.44
PAT	Rs. Cr.	0.57	1.49
PAT Margin	(%)	0.52	0.91
Total Debt/Tangible Net Worth	Times	0.87	1.05
PBDIT/Interest	Times	2.19	2.26

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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>

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
DBS Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A2 Reaffirmed
Standard Chartered Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2 Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 Reaffirmed
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Reaffirmed
DBS Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE BBB Stable Reaffirmed
Standard Chartered Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.20	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.95	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 Reaffirmed
DBS Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.55	ACUITE A2 Reaffirmed
Standard Chartered Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.88	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.60	ACUITE BBB Stable Assigned
Standard Chartered Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	2.20	ACUITE BBB Stable Assigned
Axis Bank	Not	Working Capital Demand Loan	Not	Not	Not	1.32	ACUITE BBB

	Applicable	(WCDL)	available	available	available		Stable Assigned
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About Acuité Ratings & Research

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