

Optec Instrumentations

July 01, 2019

Rating

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Short term bank facilities	7.00	CARE A4 (A Four)	Assigned
Total Facilities	7.00 (Rupees Seven crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Optec Instrumentations (OTI) is constrained by its small scale of operations, presence in a highly competitive & fragmented nature of industry and proprietorship nature of its constitution. The rating, however, derives strength from the experienced proprietor, long track record of operations, moderate profitability margins, moderate operating cycle, comfortable debt coverage indicators and buoyant prospects of education sector.

Going forward, the ability of the firm to scale up its operations while maintaining its profitability margins and overall solvency position and efficient management of working capital requirements would remain its key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small and fluctuating scale of operations with low net worth base

The firm's scale of operations has remained small marked by total operating income (TOI) of Rs.1.33 crore in FY19 (refers to the period April 01 to March 31) with low net worth base of Rs.1.81 crore as on March 31, 2019. Further, the firm's GCA was relatively low at Rs.0.23 crore for FY19. The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits. Furthermore, the scale of operations of the firm witnessed a fluctuating trend during FY17-FY19 period. The total operating income of OTI had declined from Rs.12.36 crore in FY18 to Rs.1.33 crore in FY19 mainly on account of decline in exports orders in FY19 owing to lower orders received from its dealer network. The same continued to remain small. However, the firm has order book in hand of Rs.15.00 crore as on June 21, 2019 (100% export orders) to be executed by September 2019. The firm reported total operating income of Rs.0.07 crore in 2MFY20 (Provisional).

Highly competitive & fragmented nature of the industry

The industry is riddled with high competition due to presence of several domestic and international players. Intense competition from both domestic and international players restricts the pricing flexibility and the bargaining power with customers and suppliers.

Proprietorship nature of constitution

OTI's constitution as a proprietorship firm has the inherent risk of possibility of withdrawal of the proprietor's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision of the lenders. Further, the proprietor has withdrawn funds amounting to Rs.0.71 crore in the form of capital during the FY17-19 period.

Key Rating Strengths

Experienced proprietor and long track record of operations

The firm was established in 1994 and has a long track record of operations of more than two decades in manufacturing/trading of scientific laboratory instruments which has aided the firm in establishment of strong relationships with customers and suppliers. The firm is headed by Mr. Puneet Jain, who has gained an overall experience of more than two and a half decades in the industry through PTI only. The proprietor has adequate acumen about various aspects of business which is likely to benefit OTI in the long run. Furthermore, the proprietor is supported by experienced team having varied experience in the field of technical, marketing and finance aspects of business.

Moderate profitability margins with comfortable debt coverage indicators

The profitability margins of the firm stood moderate marked by PBILDT margin and PAT margin of 12.65% and 16.54% respectively in FY19. The PBILDT margin deteriorated from 16.49% in FY18 to 12.65% in FY19 owing to increase in raw

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

material/ traded goods costs, employee costs and other administrative costs which could not be transferred to customers. However, PAT margin improved from 16.31% in FY18 to 16.54% in FY19 owing to decline in interest costs.

As on March 31, 2019, the firm had no external debt outstanding as against net-worth base of Rs.1.81 crore. The debt coverage indicators of the firm stood comfortable marked by interest coverage ratio of 185.03x in FY19 (PY: 204.41x)

Moderate liquidity position

The operating cycle of the firm stood moderate at 23 days for FY19 (2 days for FY18). The liquidity position of the firm was comfortable marked by current ratio of 9.71x and quick ratio of 8.97x as on March 31, 2019. The firm had free cash and bank balance of Rs.0.92 crore as on March 31, 2019.

Buoyant prospects of education sector

The increase in government spending on education over the years has provided an impetus to the growth of higher education in India. Higher governmental expenditure is propelling the growth of Universities and with the growing number of universities, the number of colleges affiliated to these universities also witnessed a rise. The enrolment across all courses in higher education has grown over the years. In an effort to expand the reach to tier- III cities and rural areas of the country and thereby spur enrolments, the Central government's revenue expenditure allocation towards higher education has grown in the past few years. The growing prospects of education sector would lead to higher demand for OIP's products.

Analytical Approach—Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[CARE's policy on default recognition](#)

[Criteria for short term instruments](#)

About the firm

Optec Instrumentations (OTI) was established as a proprietorship firm in 1994 by Mr. Puneet Jain. OTI is engaged in the trading/ manufacturing of scientific laboratory instruments for education sector at its facility located at Ambala Cantt, Haryana. The main products include flasks, measuring cyclinder, bottle dropper, electrolysis appratus, etc. The firm sells the products to various distributors based in Hyderabad, Chennai, Bombay, and Uttarakhand. Furthermore, OTI also exports the products to overseas market mainly to Dubai, Saudi Arab countries, etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	12.36	1.33
PBILDT	2.04	0.17
PAT	2.02	0.22
Overall gearing (times)	0.00	0.00
Interest coverage (times)	204.42	185.03

A: Audited, Prov.-Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	7.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-Packing Credit in Foreign Currency	ST	7.00	CARE A4	-	-	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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