

August 04, 2017

## Optics and Allied Engineering Private Limited

### Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limit	7.50	[ICRA]BB+ (Stable) Assigned
<b>Total</b>	<b>7.50</b>	

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus)<sup>1</sup> to the Rs. 7.50-crore<sup>2</sup> bank facilities of Optics and Allied Engineering Private Limited (OAEPL). The outlook on the long-term rating is Stable.

### Rationale

The assigned rating derives comfort from the established presence of the company in the optical-component manufacturing industry for over two decades and long relationship with customers which ensures repeat orders and aids in revenue stability. The rating favourably factors in the strong parentage of OAEPL, with the parent entity Babylone SA having extensive experience in optical-components manufacturing. The coverage indicators of the company remain healthy, supported by sustained profitability on the back of the high value-additive nature of business, coupled with operating efficiency. The rating takes into consideration comfortable capital structure of the company, supported by low reliance on external debt.

The assigned rating, however, remains constrained by the company's moderate scale of operations and low net worth position. The gearing level, which stood at 0.97 times as on March 31, 2017 is expected to moderate in the near term due to debt-funded capital expenditure envisaged by the company. Although the domestic competition is limited, the company faces competitive pressure from players located in Europe, US and China.

Going forward, the company's ability to scale up operations by acquiring new customers and maintain capital structure by limiting debt-funded capital expenditure will remain the key rating sensitivities.

### Key rating drivers

#### Credit strengths

- Extensive experience of the promoter in the optical industry
- Established relationship with renowned customers ensures stable flow of orders
- Healthy profitability aided by pricing flexibility and high value additive nature of operations
- Healthy growth in revenues for the past two years, supported by increased brand visibility

#### Credit weaknesses

- Modest scale of operations with an operating income of Rs. 23.49 crore during FY2017
- Envisaged debt-funded capital expenditure expected to impact the financial profile of the company

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 1 crore = 100 lakhs = 10 million

- Competition posed by foreign players in the optical industry; however, domestic competition is limited

**Description of key rating drivers**

OAEPL, incorporated in 1985, has a long presence of over two decades in the optical industry. The product portfolio of the company mainly comprises precision optical components like prisms, mirrors, thin film-coated glass optics and polymer optical components. The company also manufactures engineering plastics and optical instruments. Over the years, the company has established a strong relationship with its customers which ensures repeat orders and aids in revenue stability. In FY2016, Babylone SA, the holding company of Gaggione SAS, acquired a majority stake in OAEPL. Gaggione SAS, a France-based company, incorporated in 1948, is also involved in manufacturing of standard and custom optical components and technical plastic. OAEPL has benefited from the association in terms of gaining technical expertise, increase in brand visibility and acquisition of new customers, resulting in healthy revenue growth during the past two years.

Although domestic competition is limited, foreign players located in Europe, the US and China pose competitive threat. The proven track record of the company in optical components manufacturing and strong technical capabilities aids in effectively dealing with the competition. With debt-funded capital expenditure of Rs. 6.0 crore envisaged for FY2018, the capital structure and coverage indicators are expected to moderate in the near term.

**Analytical approach**

For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

**Links to applicable Criteria**

[Corporate Credit Rating - A Note on Methodology](#)

**About the company**

Optics and Allied Engineering Private Limited, established in 1985 by Mr. Rajendra Kotaria, manufactures precision optical components including prism, mirrors, polymer optical components, LED backlights, technical plastic parts and inspection instruments like microscopes, vision systems and magnifiers. The company is located in Bommasandra Industrial area, Karnataka with an employee base of 120. The company is ISO 9001:2008 certified. The majority stake of OAEPL is held by Babylone SA, the holding company of Gaggione SAS. Gaggione has a long presence in the optical industry since 1948 and provides technical guidance to OAEPL.

In FY2017, as per provisional results, the company reported an operating income of Rs. 23.49 crore and a net profit of Rs. 2.00 crore.

**Key Financial Indicators**

Particulars	FY2016	FY2017*
Operating income (crore)	15.53	23.49
PAT (crore)	0.69	2.00
OPBDITA/ OI (%)	18.31%	24.02%
RoCE (%)		
Total Debt/ TNW (times)	0.92	0.97
Total Debt/ OPBDITA (times)	2.68	1.77
Interest coverage (times)	2.84	4.92
NWC/ OI (%)	19.27%	24.25%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; NWC: Net Working Capital; Source: Financial statements of OAEPL and ICRA research; \*Provisional financials

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015	
				Aug 2017				
1	Term Loan	Long term	4.00	[ICRA]BB+ (Stable)	-	-	-	
2	Cash Credit	Long term	3.50	[ICRA]BB+ (Stable)	-	-	-	

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loan	September 2016	-	June 2025	4.00	[ICRA]BB+ (Stable)
Cash Credit	-	-	-	3.50	

*Source: Optics and Allied Engineering Private Limited*



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### About ICRA Limited:

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