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Mumbai

CRISIL Research assigns IPO grade '1/5' to Olympic Cards Ltd

CRISIL has assigned a CRISIL IPO Grade "1/5" (pronounced "one on five") to the proposed initial public offer (IPO) of Olympic Cards Ltd (Olympic Cards). This grade indicates that the fundamentals of the IPO are 'poor' relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grade assigned to Olympic Cards reflects its presence in an industry which by its very nature - highly fragmented due to low entry barriers - reduces the bargaining power of players. Further, due to low product differentiation, no player enjoys any edge over the competitors. The grade is weakened by the company's operations currently being restricted to Tamil Nadu. Even though it plans to augment its manufacturing capacity in Chennai to cater to geographies outside the state, the spectre of localised competition looms large. The grade also factors in the company's exposure to the risk of brand dilution since it shares the 'Olympic' brand with the promoter's relatives who have a similar business. Centralised management, and relatively weak internal processes and management information systems have also influenced the grade. Further, the independent directors have limited ability to exercise management oversight.

The grade does derive support from the company's presence in the wedding card segment, which is expected to grow 15-18% over the next three-five years due to: a) nearly 35% of the population is in the marriageable age group and b) an expected increase in wedding budgets.

About the company and the issue

Incorporated in 1992, Olympic Cards is a Chennai-based manufacturer and trader of wedding and greeting cards, business cards, envelopes, letterheads, calendars, notebooks and account books. It also trades in printing inks. Its manufacturing facility is located in Chennai with an installed capacity of 177 mn pieces as of FY11. Manufacturing sales contribute 84% to total revenues while trading sales make up the rest. Wedding cards comprise almost 49% of total sales.

The company reported turnover and profit of Rs 392 mn and Rs 26 mn, respectively, in FY11. The company's EBITDA margin expanded to 19.1% in FY11 from 10.5% in FY09, the sustainability of which remains a key monitorable. The company's RoE and RoCE were 26.7% and 24.6%, respectively, in FY11.

Olympic Cards plans to raise Rs 270 mn for expanding its manufacturing facility to 292 mn pieces from 177 mn pieces in Chennai and set up four more new outlets. Part of these proceeds will be used for general corporate purposes.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

Press Release

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About CRISIL Research

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