

Olympic Cards Ltd

CRISIL IPO Grade 1/5 (Poor)

February 21, 2012

Grading summary

CRISIL has assigned a CRISIL IPO grade of '1/5' (pronounced "one on five") to the proposed IPO of Olympic Cards Ltd (Olympic Cards). This grade indicates that the fundamentals of the IPO are **poor** relative to 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The grade assigned to Olympic Cards reflects its presence in an industry which by its very nature - highly fragmented, due to low entry barriers - weakens the bargaining power of players. Further, due to low product differentiation, no player enjoys any edge over the competitors. Plus, the current state concentration has put the company's long-term prospects in a noose. Olympic Cards does have plans to augment its manufacturing capacity in Chennai to cater to geographies outside Tamil Nadu. However, the spectre of localised competition looms large. The grade factors in the company's exposure to the risk of brand dilution. 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 derives support from the company's presence in the wedding card segment which is expected to grow 15-18% over the next three-five years with nearly 35% of the population in the marriageable age group and increase in wedding budgets.

The company reported turnover and profit of Rs 392 mn and Rs 26 mn, respectively, in FY11. Wedding cards comprise 49% of total revenues. The company's EBITDA margin expanded to 19.1% in FY11 from 10.5% in FY09, but the management had limited understanding about the increase in margins. The company's RoE and RoCE were 26.7% and 24.6%, respectively, in FY11.

Contacts:

Media

Mitu Samar
Head, Communications and Brand Management

CRISIL Limited
Phone: +91-22-3342 1838
Mobile: +91-9820061934
Fax: +91-22-3342 3001
Email: msamar@crisil.com

Analytical

Tarun Bhatia
Director – Capital Markets
Phone: +91-22-3342 3226
Email: tbhatia@crisil.com

Chetan Majithia
Head, Equities
Phone: +91-22-3342 4148
Email: chetanmajithia@crisil.com

CRISIL Limited
Phone: +91-22-3342 3000
Fax: +91-22 -3342 3501

Client-Servicing

Client servicing
Phone: +91-22-3342 3561
Email: clientservicing@crisil.com

About the company

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 to produce 177 mn pieces (as of FY11). Manufacturing sales comprise 84% of total revenues while trading sales make up the rest. Wedding cards comprise almost 49% of total sales. Its existing client base includes wholesalers as well as retailers. The company procures its key raw material - paper and boards - locally as well as imports them from Indonesia and Hong Kong. It even exports (manufactured and traded) wedding and greeting cards, visiting cards, envelopes and printing inks to Malaysia, Singapore, Sri Lanka and Dubai; but these comprised a miniscule 1% of FY11 sales.

Late Mr N. M. Habibullah founded Olympic Cards in 1962. Originally incorporated as Olympic Business Credits (Madras) Private Ltd in April 1992, the company got converted into public limited in March 1995 and it was rechristened Olympic Cards Ltd in May 1998. The promoter, Mr Noor Mohammed, is the president of Tamil Maanila Card Manufacturers' Association.

Issue details

Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the issue	<ul style="list-style-type: none"> Expanding manufacturing facility to 292 mn pieces from 177 mn pieces by setting up a new manufacturing unit in Chennai Setting up four more new outlets General corporate purposes and issue expenses
Amount proposed to be raised	Rs 270 mn
Price band	Not available at the time of grading
Lead managers	Ashika Capital Ltd

Source: DRHP, CRISIL Research

Detailed Grading Rationale

A. Business Prospects

- In a fragmented market amidst strong competition***

Olympic Cards, present mostly in the wedding cards segment and other associated products like greeting cards, envelopes and note books, etc. has a strong presence in South India. However, the wedding card industry by its very nature is highly fragmented with low-product differentiation, resulting in intense competition. Players have weak bargaining power due to low entry barriers and domination by unorganised players. Olympic Cards' competitors in Chennai are Menaka Cards and Lovely Cards. The differentiation lies only in their pricing to capture volumes. Also, customers' choice of cards is more guided by design and aesthetics – so they tend to overlook the brand while buying greeting and wedding cards.

- Wedding card industry expected to grow 15-18% over next three years***

The company derives 49% of its revenues from the wedding card segment, which is expected to grow 15-18% over the next three-five years with nearly 35% of the population in the marriageable age group and increase in spend on weddings.

- Operates in a highly working capital-intensive industry***

Olympic Cards operates in a working capital-intensive industry with a high inventory requirement; it has an inventory of 231 days as of FY11. Significant levels of inventory are required at the raw material stage in the form of paper and in the finished goods stage at the showrooms. High levels of inventory also carry the risk of outdated designs.

- Long track record and known name in wedding cards in South India***

Olympic Cards Group has been in the wedding cards business for almost four decades with a dominant share in the wedding card market in Tamil Nadu. In an industry where the design clock keeps ticking, the survival of a company depends on timely innovation to beat outdated designs. Hence, the company has not only established an in-house research and development facility in Chennai to churn out new designs, but also takes inputs from industry experts by outsourcing cards designing.

- Planned capacity expansion, but challenges ahead***

Olympic Cards plans to augment its installed capacity to 292 mn pieces from 177 mn (as of FY11) through a new manufacturing unit in Chennai by using Rs 270 mn of the IPO proceeds. But this again limits the company to Chennai as the logistics cost would limit its ability to cater to a wider area.

Installed capacities

(mn)	Pre-expansion	Post-expansion
Wedding cards	55	105
Greeting cards	10	20
Envelopes	86	126
Letter heads	18	28
Business cards	3	3
Calendars	1	3
Notebooks	3	5
Account books	1	2
Total	177	292

Source: DRHP

CRISIL Research believes the sale of greeting cards would be a challenge as greeting cards are extensively getting replaced by e-cards and SMS. The company had witnessed almost flat sales growth in greeting cards in FY11. Further, the company plans to increase capacity by 47% in the low-margin envelopes segment, which too would drag overall margins.

- ***Geographical concentration – known name in South India***

Its existing manufacturing facility, all but one self-operated sales showrooms, and the five franchises are based in Chennai; only one sales showroom is located in Coimbatore. Although around for over four decades, the company has hardly made any attempt to expand its reach beyond Chennai and Coimbatore. Further, its sales are also concentrated in South India, especially in Tamil Nadu.

- ***Expanding outside South India to be a challenge***

From the issue proceeds, Olympic Cards intends to use Rs 32 mn to set up four sales showrooms in Chennai and expand pan-India through the addition of a few more franchises to reduce regional concentration - but these plans are at the drawing board stage. As of date, the company has drafted the franchisee agreement. However, given the high investment required by the franchises and thin margins in the industry, we believe that it will be a challenge for the company to attract franchisees.

The brand 'Olympic' may be known in South India but not outside. Hence, the company will have to incur additional marketing costs but it has not considered any budget outlays for the same. Further, the management was unable to provide proper explanation why an entity would want to be its franchisee.

- ***Weak management information systems limit control over operations***

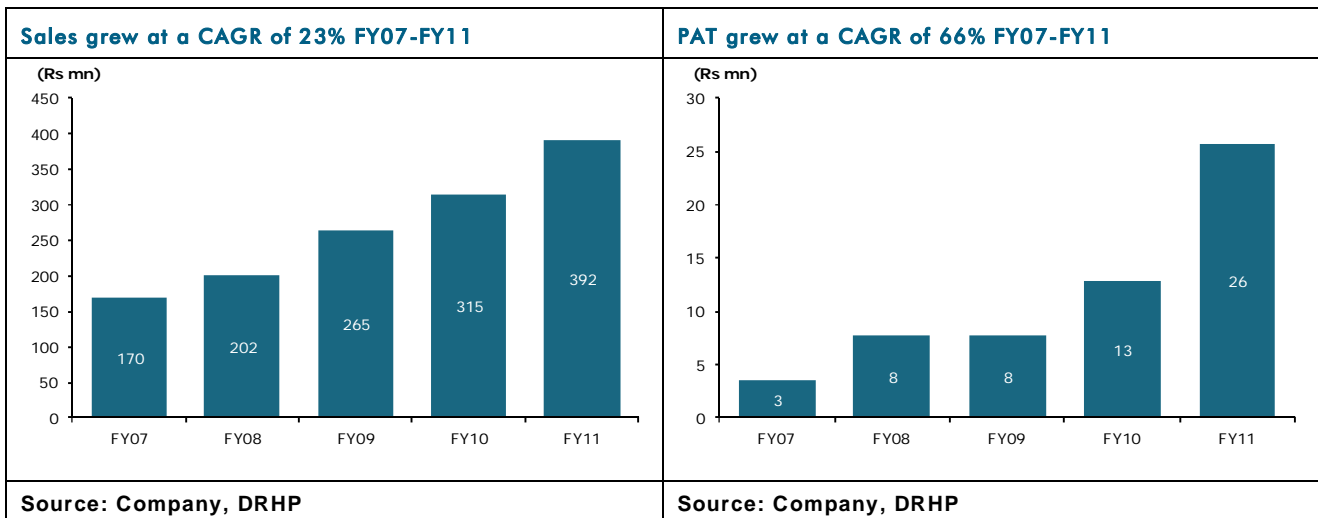
Olympic Cards' internal systems and processes are inadequate for the company's current size and its planned expansions. In addition, the company officials were unable to analyse historic performance and explain expansion in EBITDA margins and increase in effective tax rates in FY10. To increase efficiency, Olympic Cards will have to implement adequate systems and processes that will enable it to monitor performance and accordingly take accurate measures to improve performance.

- ***Potential risk of brand dilution***

Olympic Cards operates under the 'Olympic' brand. By virtue of family arrangement between promoter Mr H. Noor Mohamed and his brother Late H. Salahudeen, the trademark is also used by successors of Late H. Salahudeen, who operate a business similar to Olympic Cards.

B. Financial Performance

Olympic Cards' revenues grew at a CAGR of 23% over FY07 to FY11; wedding cards had the biggest share with 49% of sales. The company's EBITDA margins significantly expanded from 10.5% in FY09 to 19.1% in FY11. The management indicated that margins expanded due to the sale of high-end wedding cards. The sustainability of the same is a key monitorable. The company's earnings increased at a CAGR of 66% to Rs 26 mn in FY11 from Rs 3 mn in FY07. Further, the company's inventory days also increased significantly to 231 days in FY11 from 100 days in FY07.



Financial performance snapshot

	FY09	FY10	FY11
Operating income	265	315	392
EBITDA	28	53	75
EBITDA margin	10.5	17.0	19.1
Net profit	8	13	26
Net margins	2.9	4.1	6.6
Adjusted EPS*	0.9	1.6	3.0
Adjusted equity shares*	8.2	8.2	8.5
Net worth	73	83	110
Adjusted Book value *	9	10	13
ROE	11	17	27

*Adjusted for bonus issue

Note: Numbers have been re-classified as per CRISIL standards.

During FY11, the company issued 0.2 mn shares to promoters/ promoter group at Rs 50 per share and did a bonus issue in the ratio of 3:10. Thereby, the number of equity shares increased from 6.3 mn in FY10 to 8.5 mn in FY11.

Source: DRHP

C. Management Capabilities and Corporate Governance

- ***Centralised management - high dependence on the promoter***

Olympic Cards is a family-oriented and promoter-driven company, with high dependence on the promoter and managing director, Mr Noor Mohammed. At present, he is the only person who understands the dynamics of the manufacturing process and marketing but is constrained by limited financial knowledge. Based on our interactions, we believe the promoter has limited understanding on margins. The promoter's two sons are currently involved in the business operations; from our interactions, we believe both sons have limited understanding of the same.

- ***Weak second line of management***

The company lacks a professionally qualified CFO. The promoter handles all the business and financial operations of the company himself. We believe the company needs to hire professionals and experienced personnel to take it to the next level of growth. Further, weak systems and processes limit the company's ability to analyse the historical performance and initiate growth strategies.

- ***Independent directors' ability to exercise management oversight is weak***

Olympic Cards' board consists of six members, of whom three are independent directors. This meets the regulatory requirements. Independent directors are professionals with fair experience in their respective professions. In accordance with our conversation with the independent directors, we feel they are not adequately equipped to provide guidance and exercise oversight over the management. We believe these factors limit the board's ability to act in the best interest of minority shareholders.

- ***Same line of business***

Both Olympic Cards and Olympia Paper and Stationery are in the business of trading of diaries.

Annexure I

Business Profile

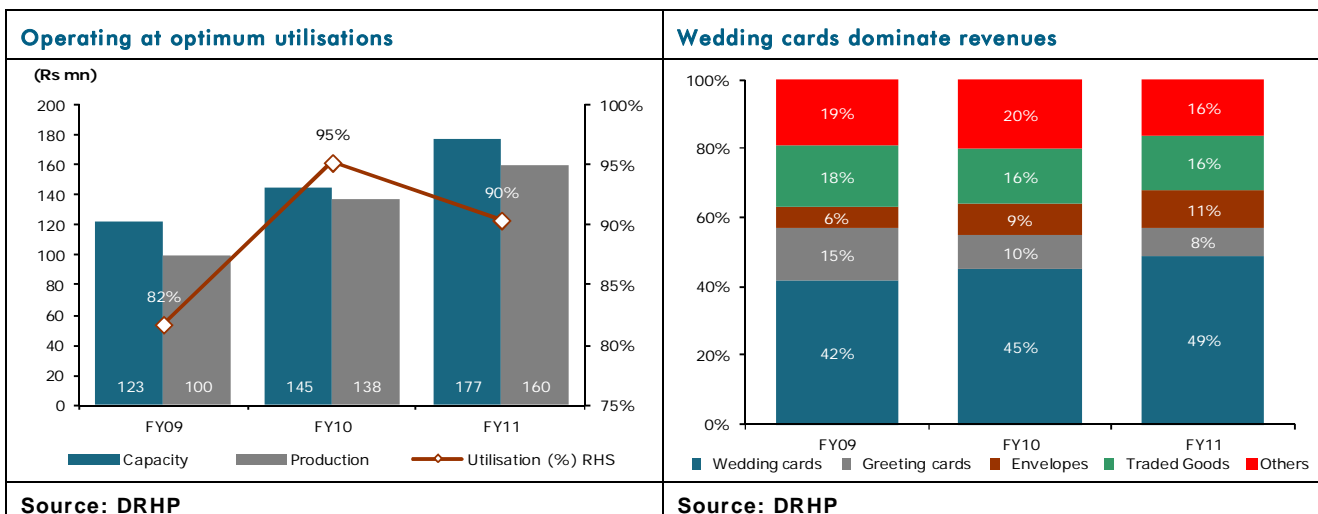
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Segment-wise capacities and production

Nos in mn	Installed Capacities			Production			y-o-y
	FY09	FY10	FY11	FY09	FY10	FY11	
Wedding cards	45	52	55	38	48	54	11%
Greeting cards	13	10	10	12	10	10	1%
Envelopes	46	63	86	35	62	73	18%
Letter Heads	13	14	18	10	12	17	44%
Business Cards	1	2	3	1	2	2	28%
Calendars	1	1	1	1	1	1	-2%
Notebooks	2	2	3	2	2	2	-12%
Account Books	1	1	1	1	1	1	13%
Total	123	145	177	100	138	160	16%

Source: DRHP

The installed capacities increased by 18% and 22%, respectively, in FY10 and FY11 but the company had limited understanding about the increase in capacities. Despite marginally scaling up the capacity from FY09 to FY10, the company increased its utilisation from 82% in FY09 to 95% in FY10.



Annexure II: Profile of the Directors

Name	Designation	Age	Qualification	Date of appointment and terms of office	Experience	Director ships in other entities
Mr H. Noor Mohamed	Managing Director	54	B.Sc. (Mathematics)	Appointed as Managing Director w.e.f. September 26, 2011 for a period of 3 years	At present, president of Tamil Maanila Card Manufacturers' Association	NIL
Mrs. S. Jarina	Whole Time Director	51	Diploma in Computer Applications	Appointed as Whole-Time Director w.e.f. September 26, 2011 for a period of 3 years	-	NIL
Mr N. Mohamed Faizal	Whole Time Director	29	M.B.A. (HR)	Appointed as Whole-Time Director w.e.f. December 01, 2007 for a period of 5 years	-	NIL
Mr Lakshmanan Ramanathan	Independent Director	57	M.A.	24-Aug-00	Assistant Editor of 'Kumudam' and 'Kalkandu' Tamil Weeklies. Chairman of the Editorial Board of Manimekalai Prasuram	NIL
Mr N.A. Ameer Ali	Independent Director	78	M.A	11-Aug-05	Retired Principal of Dr. Zakir Husain College, Tamil Nadu. Currently working as a Special Officer in B. S. A. Rahman University in Chennai.	NIL
Dr. S. Amuthakumar	Independent Director	56	M.B.B.S	23-Jul-10	Independent Medical Practitioner and a Family Physician, consultant in Dr. Mehta's Hospitals	NIL

Source: Company, DRHP

Disclaimer

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