

Press Release

D2 International Private Limited

September 04, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 39.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 39.00 crore bank facilities of D2 International Private Limited (DIPL). The outlook is '**Stable**'.

D2 International was established as a partnership firm in 1998 in West Bengal, which got converted into a private limited company in November, 2019. The company is engaged in the manufacturing and exporting of leather bags and wallets to reputed international retailers spread across Europe and the USA. The company has its manufacturing units at Kasba Industrial Estate and Bantala in West Bengal with a total production capacity of around 4 lacs pieces per annum each for leather handbags and wallets. The company is promoted by Mr. Rajiv Bhatia and Mrs. Diksha Bhatia.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

D2 International was established as a partnership firm in 1998 and the constitution got changed into a private limited company in November, 2019. Thus, the company has an operational track record of over two decades in leather product manufacturing and export business. The key promoter, Mr. Rajiv Bhatia is actively involved in the day to day operations of the company and possesses more than two decades of experience in the leather industry. He has the relevant expertise and know-how of the production process of leather goods. Currently, the second generation, Mr Viraj Bhatia and Mr Vashisht Bhatia have also entered the business. Acuité believes that the company will sustain its existing business profile on the back of long track record of operations and experienced management.

• Reputed customer base

The company has a strong customer base of reputed international retailers such as Marks and Spencer, Radley and Company Limited, Adolfo Dominguez, Piquadro and Le Tanneur. The company exports majorly to countries like U.K, Spain, Germany, USA, France, Switzerland and Italy. Currently, the company has an order outstanding of ~Rs. 30.00 Cr. to be executed in the next 2-3 months, thereby providing near term revenue visibility. Acuité believes that the promoter's extensive experience coupled with the production of quality products has helped the company to establish long term relationship with these international retailers ensuring repeat orders.

However, the company's top five customers accounted for more than ~63 percent of its sales in FY20 thereby, exposing the company to high customer concentration risk. This is partly mitigated by long standing relationship with these clients. Moreover, the company has also signed an agreement for the supply of bags and accessories to Sabyasachi Couture, a reputed international designer based in Kolkata to mark its presence in the domestic market.

While the COVID lockdown in Q1FY21 is likely to impact the near term revenues, Acuité believes that the company will continue to sustain its orders and maintain its business risk profile over the medium term.

• **Comfortable financial risk profile**

The financial risk profile of the company is marked by modest net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.29.17 Cr. as on 31 March, 2020 (Provisional) as against Rs.27.20 Cr. as on 31st March, 2019. The gearing (debt-equity) stood comfortable at 0.91 times in FY2020 (Provisional) as against 1.05 times in FY2019. The total debt of Rs. 26.55 Cr. as on March 31, 2020 (Provisional) consists of short term borrowings of Rs. 21.43 Cr., long term debt of Rs.4.23 Cr. and unsecured loan of Rs.0.89 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 5.71 times and 4.90 times in FY2020 (Provisional) as compared to 4.93 times and 3.88 times in FY2019 respectively. The NCA/TD stood at 0.28 times in FY2020. Acuité believes that the financial risk profile of the company will remain comfortable in the absence of any major debt-funded capex plans in the medium term.

Weaknesses

• **Modest scale of operations**

The company is operating at a modest scale as reflected from the revenues which stood at Rs. 102.35 Cr. in FY2020 (Provisional) as compared to Rs. 118.18 Cr. in FY2019, marking a de-growth of nearly 13.40 per cent year on year. The decline in revenues is on account of lower exports to European countries in the month of February and March as operations got impacted due to Covid-19 pandemic and the subsequent announcement of lockdown. The company has achieved revenues of Rs. 20.25 Cr. till July, 2020 (Provisional). Going forward, Acuité believes that the ability of the company to further scale up its operations will be key rating sensitivity factor.

• **Exposure to foreign exchange rate fluctuation**

The company's profitability is exposed to foreign exchange rate fluctuation. However, the forex risk is mitigated to some extent by the use of foreign currency in its working capital limits as well as the company's hedging policy of using forward contracts. The company hedges around 70 percent-80 percent of its forex exposure through forwarding contracts.

Rating Sensitivity

- Growth in scale of operations while maintaining operating profitability
- Sustenance of financial risk profile

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate, marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.7.56 crore in FY2020 to repay its long term debt obligations of Rs.0.45 crore over the same period. Moreover, the company's operations are moderately working capital intensive marked by Gross Current Asset (GCA) days of 162 days in

FY2020 as against 132 days in FY2019. The current ratio stood at 1.40 times as on March 31, 2020 (Provisional) and the fund-based limit remains utilised at 54 percent over the twelve months ended July 2020 (Provisional). The company maintains unencumbered cash and bank balances of Rs.1.35 crore as on March 31, 2020 (Provisional). Although the company has not availed moratorium, it has applied for COVID loan of Rs. 2.50 Cr. Going forward, Acuité believes that the company's liquidity to remain adequate owing to the cash accruals and the available cushion in the bank limits to meet the incremental working capital requirements.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of experienced management and strong customer base. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or deterioration in its working capital cycle leading to stretch in liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	102.35	118.18
PAT	Rs. Cr.	4.42	5.06
PAT Margin	(%)	4.32	4.28
Total Debt/Tangible Net Worth	Times	0.91	1.05
PBDIT/Interest	Times	5.71	4.93

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

None

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Available	Not Applicable	Not Available	4.00	ACUITE BBB+/Stable (Assigned)
Export Packing Credit/PCFC	Not Applicable	Not Applicable	Not Applicable	27.60	ACUITE A2 (Assigned)

Bill Discounting	Not Applicable	Not Applicable	Not Applicable	7.20	ACUITE A2 (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB+/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Priyanka Rathi Analyst - Rating Operations Tel: 033-66201212 priyanka.rathi@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.