Press Release

D2 International Private Limited

November 15, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed 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)** to the Rs.39.00 Cr bank facilities of D2 International Private Limited (DIPL). The outlook is **'Stable'**.

The rating on DIPL is derived from the sound business risk profile of the company marked by experienced management, healthy capacity utilization and long association with its reputed clientele. Further, the rating also supported by the company's comfortable financial risk profile marked by moderate networth, comfortable gearing and strong debt protection metrics. These strengths are however, partly offset by the declining scale of company's operations, stretch in the working capital cycle and exposure to foreign exchange fluctuations.

About the company

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 for leather handbags. The company is promoted by Mr. Rajiv Bhatia and Mrs. Diksha Bhatia.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of DIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters**

DIPL was established as a partnership firm in 1998 and the constitution got changed into a private limited company in November, 2019. The key promoter, Mr. Rajiv Bhatia has experience of over two decades in leather product manufacturing and export business. 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 long track record of operations and top management's steady efforts and experience will continue to support the business, going forward.

- **Reputed clientele**

DIPL has a long standing relationship with reputed international retailers such as Marks and Spencer's, Radley and co., Adolfo Dominguez, Piquadro and more. The company also has signed agreement for supply of bags and accessories to Sabyasachi Couture, a renowned international Indian designer. The company's strong customer base is spread across countries like U.K, Spain, Germany, USA, France, Switzerland and Italy. An unexecuted order book position to the tune of about Rs.65.00 Cr as on 31st Oct, 2021, to be executed in the next 3 months, provides near term revenue visibility. However, the company's top five customers accounted for 56 per cent of its sales in FY21, exposing the company to partial concentration risk even though the long-term association with these clients spanning around 15 years, order backed production process and repeat orders partly mitigates the risk. In addition, the company has added new customers like Mulberry (UK), Anya

Hindmarch (a British Designer) and more to its customer base in the current year. 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 company's comfortable financial risk profile is marked by moderate networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the company stood at Rs.31.63 Cr as on 31st March, 2021 (provisional) as compared to Rs.29.06 Cr as on 31st March, 2020. Gearing stood below unity at 0.86 times as on 31st March, 2021 (prov.) as compared to 0.92 times as on 31st March, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.09 times as on 31st March, 2021 (prov.) as compared to 1.36 times in the previous year. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 5.08 times and Debt Service coverage ratio at 3.46 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.19 times as on 31st March, 2021 (prov.) from 0.28 times as on 31st March, 2020. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Declining revenue trend**

The company has registered modest revenues of Rs.67.41 Cr in FY2021 (Prov.) as compared to Rs.100.81 crore in FY2020, marking a de growth of nearly 33 per cent year on year. The decline in revenues is on account of lower demand and lesser exports to European countries in Q4FY20 and HIFY21 due to Covid-19 pandemic, followed by subsequent lockdowns globally. However, the company has achieved provisional revenues of Rs.54.21 Cr till Sept, 2021. Acuité believes with healthy capacity utilization, the scale-up of operations in H1FY22, the operations of the company will improve over the medium term.

- **Working capital intensive nature of operations**

The company's operations are working capital intensive marked by gross current asset (GCA) days of 244 days in FY2021 (prov.) as compared to 166 days in FY2020. The stretch in the GCA days is mainly on account of stretch in the debtor period which stood at 145 days as on March 31, 2021 (prov.) as compared to 109 days as on 31st March 2020. The debtor period stretched as payments got stuck in Q4FY20 and FY21 on account of Covid-19 pandemic. The company mainly receives payment against Documents against Acceptance (DA bills) and against payment (DP bills). However, Inventory days stood comfortable at 60 days in FY2021 (prov.). Acuité believes that the company's ability to maintain its working capital cycle efficiently will remain a key rating sensitivity.

Rating Sensitivity

- Growth in their scale of operations while sustaining its operating profitability
- Further elongation in the debtor period

Material Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by moderate net cash accruals of Rs.5.22 Cr in FY2021 (provisional) as against a long term debt repayment of only Rs.0.45 Cr over the same period. The current ratio improved and stood comfortable at 1.76 times as on 31st March, 2021 (provisional) as compared to 1.37 times as on 31st March, 2020. The cash and bank balances of the company stood at Rs.1.56 Cr in FY2021 (provisional) as compared to Rs.0.43 Cr in FY2020. The fund based limit remained utilised at about 77 percent over the six months ended September, 2021. However, the company availed a Covid loan of Rs.4.20 Cr. Acuité believes that going forward the liquidity position of the company will improve due to steady cash accruals.

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 further stretch in the debtor period.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	67.41	100.81
PAT	Rs. Cr.	2.58	4.36
PAT Margin	(%)	3.83	4.33
Total Debt/Tangible Net Worth	Times	0.86	0.92
PBDIT/Interest	Times	5.08	5.66

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04-Sep-20	Term Loan	Long term	4.00	ACUITE BBB+/Stable (Assigned)
	Export Packing Credit/PCFC	Short term	27.60	ACUITE A2 (Assigned)
	Bill Discounting	Short term	7.20	ACUITE A2 (Assigned)
	Proposed Long Term Facility	Long term	0.20	ACUITE BBB+/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
UCO Bank	Term Loan	Not Available	Not Available	Not Available	4.00	ACUITE BBB+/Stable (Reaffirmed)
Punjab National Bank (Previously Oriental Bank of Commerce)	Export Packing Credit/PCFC	Not Applicable	Not Applicable	Not Applicable	27.60	ACUITE A2 (Reaffirmed)
Punjab National Bank (Previously Oriental Bank of Commerce)	Bill Discounting	Not Applicable	Not Applicable	Not Applicable	7.20	ACUITE A2 (Reaffirmed)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Sonal Modi Analyst - Rating Operations Tel: 033-66201215 sonal.modi@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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