Press Release

D2 International Private Limited

November 23, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.70	ACUITE BBB+ | Stable | Assigned	-
Bank Loan Ratings	3.30	ACUITE BBB+ | Stable | Reaffirmed	-
Bank Loan Ratings	35.70	-	ACUITE A2 | Reaffirmed
Bank Loan Ratings	6.30	-	ACUITE A2 | Assigned
Total Outstanding Quantum (Rs. Cr)	59.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed and assigned the long term rating of **'ACUITE BBB+' (read as ACUITE t riple B plus)** and the short term rating of **'ACUITE A2' (read as ACUITE A two)** to the Rs.59.00 Cr bank facilities of D2 International Private Limited (DIPL). The outlook is **'Stable'.**

Rationale for the rating

The rating reaffirmation factors in the sound business position of the company as reflected from its growing revenue trend in current year driven by improvement in the global demand and increasing realizations and healthy order book position buoyed by repeat orders from its global vintage clientele. The ratings also factor in the established track record of the promoters, above average financial profile, characterised by healthy debt protection metrics and moderate networth base, apart from adequate liquidity in the form of surplus cash accruals. These strengths are however, partly offset by the working capital intensity in company's operations, exposure to competition in the industry and geographical concentration.

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

Repeat orders from overseas client buoyed by long operating track record and extensive experience of promoters

The promoter, Mr. Rajiv Bhatia has experience of more than two decades in leather product manufacturing and export business, which has helped the company establish a strong customer base over the years. Currently, the second generation, Mr. Viraj Bhatia and Mr. Vashisht Bhatia have also entered into the business. The long standing experience of the promoters and long track record of operations has consequently helped them to establish high customer vintage, loyalty and a strong connect with its overseas customers and also comfortable relationships with key suppliers. Strong customer base of reputed international entities such as Marks and Spencer's, Radley and co., Adolfo Dominguez, Piquadro, etc have been providing repeat business. Acuité believes that the promoter's extensive experience has helped the company to establish long term relationship with customers ensuring repeat orders and therefore will benefit the company going forward, resulting in steady growth in the scale of operations.
Acuité draws comfort from the company's diversified geographical presence with exports to countries such as the UK, Spain, France, Italy, Canada, the US, and so on. It has a global presence in more than ten to twelve nations. Having been in business for almost two decades ensures a positive relationship with consumers and suppliers. Radley & Co Limited (UK) and Adolfo Dominguez SA (Spain) are two of the company's most important clients accounting for ~48 per cent of its revenues. However, the company enjoys an established relationship with these marquee customers, which have been awarding it with repeat businesses. However, Acuité believes association with reputed brands restricts its bargaining power.

Modest but improving scale of operations

The company's turnover reached the pre-Covid level in FY2022, supported by a recovery in demand of leather products since Q2 FY2022. The operating revenue of the company improved to Rs 115.12 Cr in FY 2022 as compared to Rs 67.55 Cr in FY 2021. With the order pipeline remaining adequate, the revenues are expected to witness healthy growth in the near term, early trends of which can be seen from the revenue of ~Rs. 72.52 Cr recorded till H1FY23 against ~Rs. 52.83 Cr. recorded during the same period last year. However, high overhead expenses emanating from the increasing director's remuneration and fees and substantial increase in labour costs amid increment in minimum wage kept the operating margin under pressure in FY 2022. The company's margins are also impacted by the volatility in leather prices, although its ability to partly pass on the price increase to its customers mitigates the risk to a large extent. The operating margin declined to 9.62 per cent in FY2022 as compared to 11.65 per cent in the previous year. However, the PAT margin of the company increased to 4.65 per cent in FY2022 from 4.44 per cent in FY2021, owing to better absorption of depreciation. The RoCE levels for the company stood comfortable at 13.03 per cent in 2022 as against 9.85 per cent in FY2021. The company is exposed to geographical concentration risks as the major portion of its exports are made to the US and European markets. With ~60-65 per cent of the revenues coming from the European markets, the company remains susceptible to demand cyclicality in the end-user markets. Acuité expects the demand of the luxury products to moderate over the medium term with looming recession and the high inflation across the globe.

Above average financial risk profile

The company's above average financial risk profile is marked by moderate net worth, modest gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.37.40 Cr as on March 31, 2022 from Rs. 32.05 Cr as on March 31, 2021, on account of ploughing back of profits. Gearing of the company increased to 1.10 times as on March 31, 2022 as compared to 0.85 as on March 31, 2021, mainly led by increasing reliance on external debt to support the working capital requirements and guaranteed emergency credit line (GECL). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.51 times as on March 31, 2022 as against 1.13 times as on March 31, 2021. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 6.49 times in FY 2022 as against 6.99 times in FY 2021; and Debt Service Coverage Ratio (DSCR) at 3.25 times in FY 2022 as against 4.17 times in FY 2021. Net Cash Accruals/Total Debt (NCA/TD) stood moderate at 0.19 times as on March 31, 2022. With the company's increased reliance on term borrowings since the previous two years in the form of ECLGS loans, its repayment obligations are scheduled over the next few years, which are likely to keep the debt coverage metrics modest. Acuité believes that going forward, scaling up of operations, while improving profitability, will remain crucial to maintain comfortable debt coverage metrics in the medium term.

Weaknesses

Working capital intensive nature of operation

The working capital management of the company has improved in FY22, although marked by Gross Current Assets (GCA) of 236 days in 31st March 2022 as compared to 255 days on 31st March 2021 with increased efficiencies in inventory and debtor management. The stretch in the GCA days is mainly on account of stretch in the debtor period which stood at 122 days as on March 31, 2022, even though it has improved as compared to 156 days as on 31st March 2021. The supply chain crisis, along with increased container turnaround time had a domino effect on the receivable cycle, increasing the average debtor days, as the company mainly receives payment against Documents against Acceptance (DA bills) and against payment (DP bills). However, the inventory period improved to 54 days as on 31st March, 2022 against 60 days in the previous year. The company needs to maintain raw material (leather) inventory to ensure smooth production throughout the year. Going forward, Acuité believes that the working capital management of the company will remain at similar levels as evident from the existing collection mechanism and moderate inventory levels over the medium term.

Exposure to foreign exchange rate fluctuation

Being an export-oriented entity, the company remains exposed to adverse changes in foreign currency. 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 60-70 per cent of its forex exposure through forward contracts.

Rating Sensitivities

- Sustenance in revenue growth along with improvement in profitability margins
- Further Elongation of Debtor days

Material covenants

None

Liquidity Position: Adequate

Liquidity is adequate marked by moderate net cash accruals of Rs. 7.65 Cr as on March 31, 2022 as against debt repayment of Rs. 1.15 Cr. over the same period. The current ratio stood comfortable at 1.54 times as on March 31, 2022 and the fund based limit remained moderately utilised at ~62.53 percent over the six months ended October 31, 2022. The cash and bank balances of the company stood at Rs.7.88 Cr as on March 31, 2022, of this Rs.7.37 Cr is retained as current account balance and remaining as unencumbered cash. However, the working capital intensive management of the company is marked by Gross Current Assets (GCA) of 236 days in 31st March 2022 as compared to 255 days in 31st March 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady 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.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	115.12	67.55
PAT	Rs. Cr.	5.35	3.00
PAT Margin	(%)	4.65	4.44
Total Debt/Tangible Net Worth	Times	1.10	0.85
PBDIT/Interest	Times	6.49	6.99

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
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Nov 2021	Packing Credit	Short Term	27.60	ACUITE A2 (Reaffirmed)
	Bills Discounting	Short Term	7.20	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.20	ACUITE BBB+ | Stable (Reaffirmed)
04 Sep 2020	Bills Discounting	Short Term	7.20	ACUITE A2 (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB+ | Stable (Assigned)
	Proposed Bank Facility	Long Term	0.20	ACUITE BBB+ | Stable (Assigned)
	Packing Credit	Short Term	27.60	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	7.20	ACUITE A2 | Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.60	ACUITE BBB+ | Stable | Assigned
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	28.50	ACUITE A2 | Reaffirmed
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	6.30	ACUITE A2 | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE BBB+ | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	8.07	ACUITE BBB+ | Stable | Assigned
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.10	ACUITE BBB+ | Stable | Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.03	ACUITE BBB+ | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.