



Press Release
D2 INTERNATIONAL PRIVATE LIMITED
January 19, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	50.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	59.00	-	-

Rating Rationale

Acuite 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.59.00 Cr bank facilities of D2 International Private Limited (DIPL). The outlook is '**Stable**'.

Rationale for the rating reaffirmation

The rating reaffirmation factors the stable operating performance of DIPL marked by improving revenue and stable profitability margins backed by strong customer base and above -average financial risk profile. The turnover of the company stood at Rs.133.90 Cr in FY2023 as against Rs.115.12 Cr in FY2022. The operating margin stood at 10.39 percent in FY2023 as against 9.62 percent in FY2022 and the PAT margin stood at 5.15 percent in FY2023 as against 4.65 percent in FY2022. Further, the financial risk profile of the company is above average marked by low gearing and comfortable debt protection metrics. The gearing of the company stood at 0.69 times as on March 31, 2023 as compared to 1.10 as on March 31, 2022.

The ratings also factor in the established experience promoters with long operating track record and 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of D2 International Private Limited (DIPL) to arrive at the rating.

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. The company has achieved revenues of Rs.133.90 Cr in FY2023 as compared to revenues of Rs.115.12 Cr in FY2022 and Rs.67.55 Cr in FY2021, thereby, registering a CAGR of 25.62 percent over the three years. Further, the operating margin of the company stood volatile in the last three years, owing to fluctuations in the leather prices, increase in the director's remunerations, substantial increase in labour costs amid increment in minimum wage. The operating margin stood at 10.39 percent in FY2023 as against 9.62 percent in FY2022 and 11.65 percent in FY2021. The PAT margin stood at 5.15 percent in FY2023 as against 4.65 percent in FY2022. Moreover, DIPL has achieved revenues of Rs.77.63 Cr in 8MFY2024 (Provisional). The increase in the YOY turnover is due to increase in the production and modest rise in realisation price.

Acuité also draws comfort from the company's diversified geographical presence with exports to countries such as the UK, Spain, France, Italy, the US, and so on. It has a global presence in more than seven to eight nations. Having been in business for almost two decades ensures a positive relationship with consumers and suppliers. Radley & Co Limited (UK), Le tanneur and Adolfo dominguez are the company's most important clients accounting for ~50-55 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.

Above average financial risk profile

The company's above average financial risk profile is marked by moderate net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.44.30 Cr as on March 31, 2023 from Rs.37.40 Cr as on March 31, 2022, on account of ploughing back of profits. Gearing of the company improved and stood at 0.69 times as on March 31, 2023 as compared to 1.10 as on March 31, 2022. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.90 times as on March 31, 2023 as against 1.51 times as on March 31, 2022. The Debt /EBITDA of DIPL has improved and stood at 2.16 times as on March 31, 2023 as against 3.66 times as on March 31, 2022. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 5.11 times in FY2023 as against 6.49 times in FY2022; and Debt Service Coverage Ratio (DSCR) at 2.35 times in FY2023 as against 3.25 times in FY2022. Net Cash Accruals/Total Debt (NCA/TD) stood moderate at 0.29 times as on March 31, 2023.

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 operations

The working capital management of the company has improved in FY2023, although marked by high Gross Current Assets (GCA) of 179 days in 31st March 2023 as compared to 236 days on 31st March 2022 with increased efficiencies in inventory and debtor's management. The stretch in the GCA days is mainly on account of stretch in the debtor period which stood at 94 days as on March 31, 2023, even though it has improved as compared to 122 days as on 31st March 2022. 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 stood stable at 54 days as on 31st March, 2023 and 31st March 2022. The company needs to maintain raw material (leather) inventory to ensure smooth production throughout the year. The creditors days improved and stood at 46 days as on 31st March 2023 as against 83 days as on 31st March 2022. Further, the average bank limit utilisation of fund based limit remained moderately utilised at ~30.63 percent over the six months ended October 31, 2023.

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

- Sustainable improvement in revenue along with improvement in profitability margins while maintaining capital structure.
- Further Elongation of working capital cycle.

Liquidity Position: Adequate

Liquidity is adequate marked by moderate net cash accruals (NCA) of Rs.8.98 Cr as on March 31, 2023 as against long term debt repayment of Rs.2.23 Cr. over the same period. Going forward, DIPL is expected to generate NCAs in the range of Rs.10.64-13.25 Cr. against Rs2.71 Cr CPLTD. The cash and bank balances of the company stood at Rs.5.82 Cr as on March 31, 2023. The current ratio stood comfortable at 1.98 times as on March 31, 2023 and the fund based limit utilisation stood low at ~30.63 percent over the six months ended October 31, 2023. However, the working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 179 days in 31st March 2023 as compared to 236 days in 31st March 2022.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	133.90	115.12
PAT	Rs. Cr.	6.90	5.35
PAT Margin	(%)	5.15	4.65
Total Debt/Tangible Net Worth	Times	0.69	1.10
PBDIT/Interest	Times	5.11	6.49

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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, Acuite 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
23 Nov 2022	Packing Credit	Short Term	28.50	ACUITE A2 (Reaffirmed)
	Bills Discounting	Short Term	7.20	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	0.03	ACUITE BBB+ Stable (Assigned)
	Covid Emergency Line	Long Term	5.60	ACUITE BBB+ Stable (Assigned)
	Packing Credit	Short Term	6.30	ACUITE A2 (Assigned)
	Term Loan	Long Term	3.10	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.20	ACUITE BBB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	8.07	ACUITE BBB+ Stable (Assigned)
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)

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	Covid Emergency Line.	Not Applicable	Not Applicable	30 Nov 2026	Simple	2.10	ACUITE BBB+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	31 Oct 2024	Simple	1.40	ACUITE BBB+ Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A2 Reaffirmed
Punjab National Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	42.00	ACUITE A2 Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	31 Jan 2023	Not available	31 Jan 2028	Simple	5.50	ACUITE BBB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

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