

December 08, 2021

## KDDL Limited: Ratings reaffirmed; outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/Cash Credit	27.00	27.00	[ICRA]BBB+(Positive); Reaffirmed, outlook revised from Stable to Positive
Fund-based/Term loan	36.68	36.68	[ICRA]BBB+(Positive); Reaffirmed, outlook revised from Stable to Positive
Non-fund Based	25.00	25.00	[ICRA]A2; Reaffirmed
Fund-based	3.00	3.00	[ICRA]A2; Reaffirmed
Fixed Deposits	15.0	15.0	MA-(Positive); Reaffirmed, outlook revised from Stable to Positive
<b>Total</b>	<b>106.68</b>	<b>106.68</b>	

\*Instrument details are provided in Annexure-1

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of KDDL Limited (KDDL) as well as its subsidiaries and associate companies, given the strong operational, financial and managerial linkages between these entities.

The outlook revision factors in the expected improvement in the Group's performance, led by stability of demand witnessed by the manufacturing segment. The healthy order book from the manufacturing segment provides better revenue visibility, which augurs well for the company going forward. Further, the stores operating under Ethos Limited have reopened entirely and KDDL is witnessing good traction, driven by both online as well as offline channels. The luxury watches retail business has depicted resilience, despite the impact of the second wave of the pandemic, with substantial revenue growth in the current financial year as compared to the previous year. While lease rental concessions during the pandemic supported its margins, improved demand in H2 FY2022 is likely to result in higher cash accruals. The ratings favourably consider the rights issue of Rs. 25 crore supporting its liquidity position, majority of which would be used towards working capital in the retail business over a period of time. The ratings continue to note KDDL's prominent market position in watch component manufacturing as a leading supplier of watch hands and dials, established relationships with leading global luxury watch manufacturers and Ethos' position as the largest organised luxury watch retailer in the country.

The ratings, however, continue to be constrained by the working capital nature of business particularly in the retail segment, which is characterised by high inventory requirements. Further, it faces demand risk in the retail division on account of high demand elasticity, coupled with the discretionary nature of spending for luxury watches. The company reported a subdued performance in FY2021 due to the Covid-19 pandemic. The evolving nature of the pandemic remains critical and might adversely impact demand in the retail as well as manufacturing business. Additionally, it remains exposed to the moderate forex fluctuation risk in the retail division, as a large part of the inventory is imported and is unhedged, although there is a natural hedge at a consolidated level.

## Key rating drivers and their description

### Credit strengths

**Improved performance driven by luxury watches segment and stable demand in manufacturing division** – After subdued performance in FY2021 in both manufacturing as well as retail division, the company witnessed revival in H1 FY2022. There has been stable demand in the manufacturing division, along with a healthy order book (including exports) providing better revenue visibility. Further, in the luxury watches retail segment, the business has shown resilience even during the pandemic. While stores remained closed in Q1 FY2022, it reported a revival in performance after the second wave of the pandemic. Healthy online sales, focus towards exclusive arrangements and higher margin products are also aiding the bottom line.

The company received lease rental concessions during the pandemic and also implemented certain cost optimization measures during this period, which improved its margins. The demand revival in H2 FY2022, with an improved cost structure, is expected to strengthen its credit metrics going forward.

**Improvement in capital structure and liquidity** – The company's liquidity has improved with additional equity being infused to the tune of Rs. 25 crore through the rights issue in April 2021. The liquidity has been further aided by limited utilisation of sanctioned working capital limits across the entities. The adjusted capital structure (after excluding lease liabilities) has also improved, as reflected by a gearing of 0.72 times in FY2021 as against 0.90 times in FY2020.

**Established market position** – KDDL has a prominent market position in watch component manufacturing as a leading supplier of watch hands and dials, having established relationships with leading luxury watch manufacturers in the world like Swatch, Tag Heuer, Gucci, Edox, etc. Further, its retail arm, Ethos, is the largest organised luxury watch retailing in the country and operates out of its 47 stores spread across India as of September 2021.

### Credit challenges

**Decline in revenues in FY2021 mainly owing to Covid-19 pandemic** – The company's revenue, at a consolidated level, dropped by 14% in FY2021 to Rs. 563 crore in FY2021 from Rs. 652 crore in FY2020. The loss of revenues is primarily attributable to the weak sentiments prevalent both in the domestic as well as exports markets in the manufacturing division. Further, it lost significant amount of trading hours in the first half of FY2021 due to the pandemic-led lockdown. ICRA however notes that company showed resilience during that period and has rebounded sharply with healthy revenues posted in H1FY2022 despite first half being impacted by second wave of Covid-19.

**High working capital requirements** – The company's working capital intensity remained high at ~32.6% in FY2021 and 32.3% in FY2020, given the raw material and work-in-progress inventory in its manufacturing vertical and high finished good inventory in its retail division, necessitating high working capital funding. That said, it has sufficient cushion in the form of drawing power and utilization. And, company has managed its working capital efficiently in the past.

**Risk of fluctuating demand** – The company's performance is directly dependent on demand across both the segments, which mainly relies on the discretionary spending of the public. While the company has depicted resilience, the evolving nature of the pandemic might adversely impact the overall market sentiments. The demand in retail business has also witnessed regulatory headwinds like changes in government policies regarding taxation, etc.

**Exposed to forex risks** – The impact of forex fluctuations remains moderate since a major portion of KDDL's revenues are dependent on exports (Swiss market) and a large portion of retail purchases are imports from Switzerland, resulting in forex exposure. That said, the Group made marginal gains during the last two financial years.

### Liquidity position: Adequate

KDDL's liquidity is **adequate** with cash balances of ~Rs. 56 crore as on September 30, 2021, supported by infusion of Rs. 25 crore received through rights issue in April 2021. The liquidity is further aided by substantial cushion in its working capital limits worth Rs. 81 crore as on September 30, 2021 at a consolidated level.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if the Group demonstrates significant improvement in its scale, profitability and working capital cycle on a sustained basis. Adjusted TD/OPBIDTA below 2.2 times, on a sustained basis, might also trigger an upgrade.

**Negative factors** – Negative pressure on the ratings could emerge, if there is a dip in demand due to evolving nature of Covid-19 pandemic, leading to pressure on revenues and profitability. Stretch in working capital cycle and pressure on liquidity may also warrant a rating review. Adjusted TD/OPBIDTA over 2.8 times, on a sustained basis, might lead to a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated

## About the company

Incorporated in 1981, KDDL manufactures watch components like dials, hands and precision engineering goods under the brand name, Eigen. The company is a leading supplier of high-quality dials and hands to watch manufacturers in India and Switzerland. KDDL has presence in Switzerland through its subsidiary, Pylania SA, which is involved in the business of manufacturing dials and hands for Swiss watch companies.

## Key financial indicators (Audited)

Consolidated	FY2019 (A)	FY2020 (A)*	FY2021 (A)*
Operating Income (Rs. crore)	625.0	652.3	562.8
PAT (Rs. crore)	25.2	-2.0	7.0
OPBDIT/OI (%)	10.4%	11.9%	14.0%
RoCE (%)	16.7%	7.5%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.18	1.86	1.68
Total Debt/OPBDIT (times)	2.38	3.72	3.16
Interest Coverage (times)	4.56	2.73	2.94

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

\*FY2020 & FY2021 numbers are post IndAs

## Status of non-cooperation with previous CRA:

CRISIL has migrated the ratings to 'CRISIL FB+ (Stable) ISSUER NOT COOPERATING' on December 26, 2019; on best available information with the credit rating agency.

[https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/KDDL\\_Limited\\_December\\_26\\_2019\\_RR.html](https://www.crisil.com/mnt/winshare/Ratings/RatingList/RatingDocs/KDDL_Limited_December_26_2019_RR.html)

### **Any other information**

Disclosure: A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of KDDL Limited (KDDL). This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein.

## Rating history for past three years

S.No.	Instrument	Current Rating (FY2022)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2021	FY2020		FY2019
					08-Dec-21	8-Dec-20	7-Jan-20	10-May-19	28-Sep-18
1	Fund-based/Cash Credit	Long-term	27.00	27.00	[ICRA]BBB+(Positive);	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based/Term loan	Long-term	36.68	36.24	[ICRA]BBB+(Positive);	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund Based	Short-term	25.00	25.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Fund-based	Short-term	3.00	3.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Fixed Deposits	Medium-term	15.0	15.0	MA-(Positive)	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)

Amount in Rs. crore

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based/Cash Credit	Simple
Fund-based/Term loan	Simple
Non-fund Based	Very Simple
Fund-based	Simple
Fixed Deposits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's

financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Cash Credit	-	NA	-	27.00	[ICRA]BBB+(Positive);
NA	Fund-based/Term loan	FY2018	NA	FY2025	36.68	[ICRA]BBB+(Positive);
NA	Non-fund Based	-	NA	-	25.00	[ICRA]A2
NA	Fund-based	-	NA	-	3.00	[ICRA]A2
NA	Fixed Deposits	-	NA	-	15.0	MA-(Positive)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis:**

Company Name	Ownership	Consolidation Approach
KDDL Limited	-	Full Consolidation
<b>Subsidiaries</b>		
Ethos Limited	75.56%	Full Consolidation
Pylania SA	85.00%	Full Consolidation
Kamla International Holdings SA	100.00%	Full Consolidation
Mahen Distribution Limited	98.72%	Full Consolidation
Satva Jewellery and Design Limited	100.00%	Full Consolidation
Cognition Digital LLP	73.55%	Full Consolidation
Kamla Tesio Dials Limited	30.00%	Full Consolidation
Estima AG	95.50%	Full Consolidation

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**  
+91 022 61143400  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Nishant Misra**  
+91 124 4545862  
[nishant.misra@icraindia.com](mailto:nishant.misra@icraindia.com)

**Sheetal Sharad**  
+91 124 4545374  
[sheetal.sharad@icraindia.com](mailto:sheetal.sharad@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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## ICRA Limited



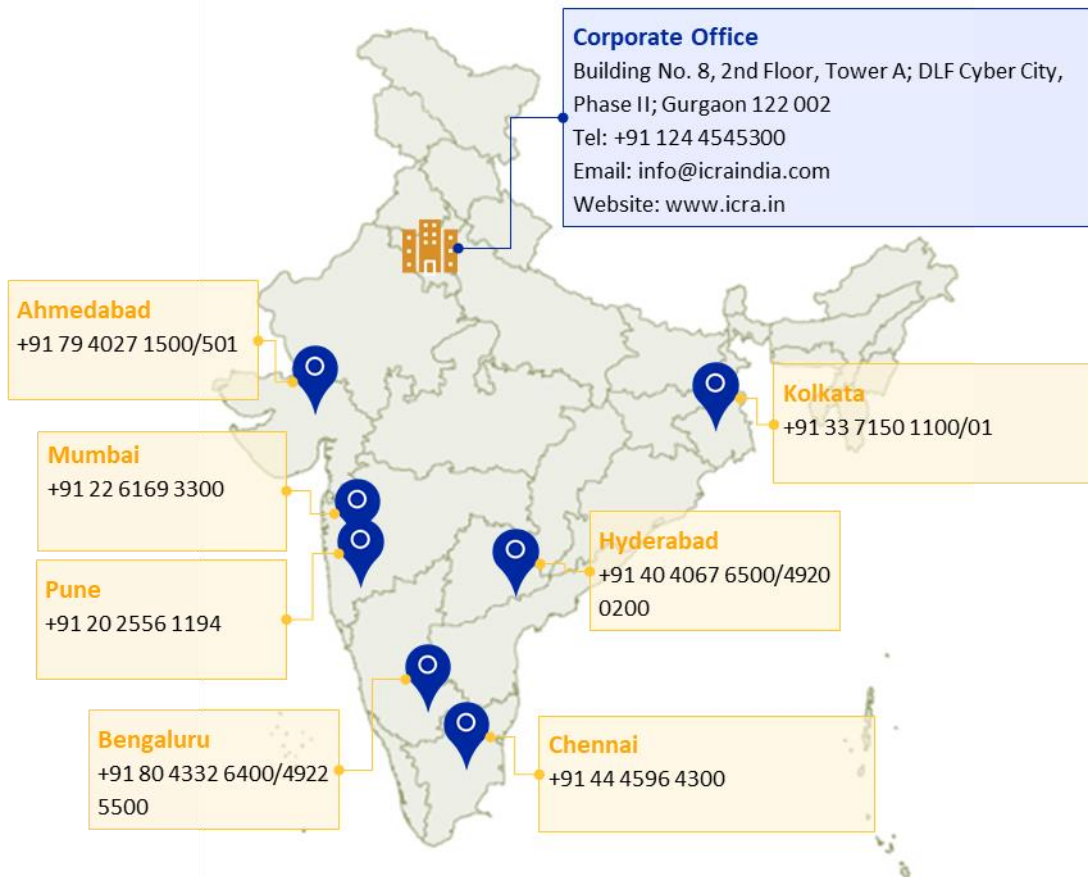
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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