

May 30, 2022

## Bhartiya International Limited: Ratings reaffirmed; outlook revised to Negative

### Summary of rating action

| Instrument*                                       | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                                                                                                      |
|---------------------------------------------------|-----------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Long Term – Fund-based/TL                         | 86.23                             | 68.90                            | [ICRA]BBB (Negative); rating reaffirmed, outlook revised to Negative from Stable                                   |
| Short Term – Non-Fund based                       | 157.45                            | 96.45                            | [ICRA]A2; reaffirmed                                                                                               |
| Long Term/ Short Term - Fund based/Non-Fund-Based | 360.00                            | 325.00                           | [ICRA]BBB (Negative)/[ICRA]A2; ratings reaffirmed, outlook on the long-term rating revised to Negative from Stable |
| Long Term/ Short Term – Unallocated               | 0.00                              | 113.33                           | [ICRA]BBB (Negative)/[ICRA]A2; reaffirmed, outlook on the long-term rating revised to Negative from Stable         |
| <b>Total</b>                                      | <b>603.68</b>                     | <b>603.68</b>                    |                                                                                                                    |

\*Instrument details are provided in Annexure-1

### Rationale

The outlook revision on the long-term rating of Bhartiya International Limited (BIL) reflects ICRA's expectation of a lower-than-anticipated recovery in the company's operating performance and likely further moderation in its debt coverage metrics owing to ballooning repayments and profitability pressure. The pandemic-induced operational and demand disruptions led to an increase in the share of lower-margin PU leather product business for the company. Along with an increase in the other manufacturing costs, this reduced the company's estimated operating margin in FY2022. A recovery in demand for the leather-based products is likely with a recovery in consumer demand, corroborated by the company's order book position. Nevertheless, a sustained and healthy increase in the operating margin while maintaining its scale of operations is imperative for an improvement in the debt coverage metrics, which remains to be seen. While the company's working capital cycle improved in FY2022 (reflected by NWC/OI of 81% in H1 FY2022 against 93% in FY2021), it remains stretched, led by an elongated inventory turnover period. Notwithstanding the moderation in coverage metrics and high working capital intensity, ICRA has drawn comfort from an improvement in the company's liquidity position while reaffirming the ratings. BIL availed corporate loans and ECLGS<sup>1</sup> loans in the past two years to tide over the challenges posed by the pandemic. Moreover, the company received ~3.4 million CHF (approx. Rs. 30 crore) from the Switzerland Government to support the pandemic-led turnover loss in one of its subsidiaries (Ultima SA). The company used the proceeds from borrowings and Covid reimbursements to bring down its working capital borrowings and build up a liquidity cushion.

The ratings continue to draw comfort from BIL's strong operational profile, characterised by its long and successful operating history of more than two decades, integrated nature of its operations across designing, manufacturing and marketing activities and strong positioning in the market as a leading exporter of leather garments. Besides, its experienced promoters and a professional management team have facilitated the establishment of a large base of active and reputed clientele, providing it with repeat business. The ratings, however, continue to be constrained by the company's high dependence on the leather sector as well as high client and geographical concentration risks. The leather sector remains exposed to industry risks arising from waning consumer preference for animal skins, as well as growing protests against their use. BIL is also exposed to foreign exchange risk as it is an export-oriented company. The risk is, however, partly mitigated by a natural hedge, given its import

<sup>1</sup> Emergency credit Line Guarantee Scheme announced by Reserve Bank of India, for providing guaranteed collateral free additional credit to companies, in the form of working capital term loan facility

requirements and its policy of entering into forward contracts for a part of the exposure, which has helped the company report steady profitability over the years.

## Key rating drivers and their description

### Credit strengths

**Extensive operating track record in the leather apparel business, with an established track record of attracting repeat business from export markets** – BIL is one of the largest exporters of leather apparels from India, deriving its revenues mainly from the export of leather products (more than ~80% of its standalone revenues) such as apparels, accessories and finished leather. It has a vast operating history of over two decades in the leather apparel business. Over the years, the company has established a strong customer base of reputed international entities such as All Saints, Esprit, Levis Strauss and Okaidi, which have been providing repeat business. Its ability to attract repeat business as well as new renowned customers, reflects favourably on its operations.

**Strong operational profile** – BIL runs integrated operations in the leather business with in-house designing, tannery and manufacturing facilities. Over the years, the company has focused on diversifying its operations across related product categories (such as accessories, textile apparels, PU leather products, finished leather and outerwear, among others) as well as customers and geographies (increasingly focusing on North American and Asian markets). This has helped the company reduce its geographical concentration to some extent, as reflected in EU's (including the UK) share in its consolidated revenues declining to an estimated ~62% in 9M FY2022 from ~82% in FY2014.

**Experienced promoter group, supported by professional management team** – BIL's promoter, Mr. Snehdeep Agarwal has over two decades of relevant experience in the leather product manufacturing and export business, which has helped the company establish a strong customer base over the years. The promoter group is actively involved in the operations of the company and is supported by a professional management team for heading various operational roles such as sales and marketing, designing, procurement and finance.

### Credit challenges

**Stretched operating cycle entails high reliance on working capital borrowings** – Given the integrated nature of operations, long operating cycle, multi-location manufacturing base, seasonality in sales and raw leather availability, as well as intense competition from other bulk buyers of leather in the international markets, the company needs to maintain a high raw material (leather) inventory to ensure smooth production throughout the year. In addition, its need to procure similar quality leather for large, customised orders and stock them adequately for the next year's estimated order book also keep its inventory holding requirements at a high level. The company's inventory turnover period peaked to 327 days in FY2021 owing to the operational disruptions caused by the pandemic and the ensuing impact it had on sales. While the company managed to reduce it to 266 days in H1 FY2022, the working capital intensity (as reflected by NWC/ OI) remained high at more than 80%. ICRA further notes that the risk of inventory obsolescence for raw material stocks remains low given the long shelf life of tanned leather.

**Moderation in financial risk profile; high repayments to keep coverage metrics modest** – Pressure on BIL's profitability resulting from Covid-led disruptions and subdued demand for leather products, together with increased working capital intensity resulted in a moderation in the company's return, capitalisation and debt coverage metrics in the past two financial years, viz. FY2021 and FY2022. This is reflected in a net debt/ OPBDITA of 10.7 times and 8.6 times in FY2021 and H1 FY2022, respectively, compared to 6 times in FY2020, and an interest cover of 1.3 times and 1.6 times in FY2021 and 9M FY2022, respectively, compared to 2.2 times in FY2020. With the company's increased reliance on term borrowings in the past two fiscals in the form of corporate and ECLGS loans, its repayment obligations are scheduled to balloon over the next few years, which are likely to keep BIL's debt coverage metrics modest. Scaling up of operations, while improving profitability, will remain crucial to maintain comfortable debt coverage metrics in the medium term, particularly given the sizeable repayment obligations from FY2023. However, ICRA draws comfort from the company's enhanced liquidity cushion, as it used the term

borrowings and Covid-related reimbursements to bring down its working capital borrowings and build up liquidity buffer in the form of fixed deposits.

**Revenues susceptible to demand trends in key markets, intense competition from international suppliers and risk of changing preferences** – Although the company’s increased focus on Asian and North American markets is facilitating gradual diversification in its regional presence, dependence on key markets remains high with the EU, the US and the UK accounting for ~27%, ~35% and ~8% of its standalone revenues, respectively, in 9M FY2022. This exposes it to the risks arising from adverse regional development as well as change in demand trends in these markets. Further, BIL’s top-five customers account for more than ~52% of its standalone sales. Nevertheless, it remains exposed to industry risks such as intense competition from international suppliers, waning consumer preference for animal skins, as well as growing protests against their usages.

**Vulnerability of profitability to foreign exchange fluctuations and regulatory risks** – Being an export-oriented entity, BIL remains exposed to currency risks on account of fluctuations in foreign currency movements. Though the forex risk is mitigated to some extent by its natural hedge from imports and the use of foreign currency in its working capital limits as well as the company’s hedging policy for using forward contracts, the same remains vulnerable to the management’s discretion. Moreover, revenues and profitability remain susceptible to regulatory risks such as changes in duty structure and the rate of export incentives, which could potentially impact the competitiveness of its products.

### Liquidity position: Adequate

BIL’s liquidity profile is adequate, with liquid balances (including free cash and bank balances and unutilised lines of credit) and cash flows from operations likely to be sufficient to meet margin requirements for its working capital and capex requirements, as well as scheduled repayment obligations. BIL availed corporate loans and ECLGS loans in the past two years to tide over the challenges posed by the pandemic. Moreover, the company received ~3.4 million CHF (approx. Rs. 30 crore) from the Switzerland Government to support the pandemic-led turnover loss in one of its subsidiaries (Ultima SA). BIL used the proceeds from borrowings and Covid reimbursements to bring down its working capital borrowings and build up a liquidity cushion. This is reflected in BIL’s average fund-based limit utilisation (on a standalone basis), which declined to ~85% in FY2022 from ~90% in FY2021 and 97% in FY2020. As on March 31, 2022, BIL had a cushion of ~Rs. 100 crore in the form of undrawn limits and free cash/bank balances.

### Rating sensitivities

**Positive factors** – Given the Negative outlook, a rating upgrade is unlikely in the near term. Nevertheless, the outlook may be revised to Stable if the company can significantly improve its profitability and working capital intensity on a sustained basis, while maintaining its scale, resulting in an improvement in its debt servicing indicators.

**Negative factors** – Pressure on BIL’s ratings could arise if the company is unable to improve its margins, resulting in a further moderation in its debt coverage metrics, or if there is a deterioration in its liquidity profile. Specific metrics that could trigger ratings downgrade include PBDIT/ interest of less than 3 times on a sustained basis.

### Analytical approach

| Analytical Approach             | Comments                                                                                                                                                                                          |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>                                                                                                                                               |
| Parent/Group Support            | Not Applicable                                                                                                                                                                                    |
| Consolidation/Standalone        | For arriving at the rating, ICRA has considered the consolidated financials of BIL. As on March 31, 2021, the company had 10 subsidiaries, which are all enlisted in <a href="#">Annexure-2</a> . |

## About the company

Initially incorporated as Bhartiya Galecha Industries Private Limited in January 1987, Bhartiya International Limited (renamed in July 1993) is a listed entity. It manufactures and exports leather garments and accessories (like wallets, hand bags, belts, etc). BIL is a recognised export house that derives its revenues mainly from the export of products to overseas markets like Spain, France, Austria, Italy, Switzerland, the US and Canada. The company's manufacturing facilities are located in Bengaluru (Karnataka), Chennai (Tamil Nadu) and Nellore (Andhra Pradesh). It is backward integrated with its own tannery facilities in Chennai. As a part of the forward integration initiatives, the company has also established its own design house in Italy, manufacturing of which is done in India. Besides leather products, the company trades in textile apparels for which designing, raw material procurement and marketing activities are done in-house, while the production is outsourced to manufacturers in China and Bangladesh.

## Key financial indicators (audited)

| Consolidated                                         | FY2020 | FY2021 | 9M FY2022* |
|------------------------------------------------------|--------|--------|------------|
| Operating Income (Rs. crore)                         | 720.7  | 548.4  | 536.9      |
| PAT (Rs. crore)                                      | 24.7   | 2.7    | 14.0       |
| OPBDIT/OI (%)                                        | 8.8%   | 6.7%   | 5.2%       |
| PAT/OI (%)                                           | 3.4%   | 0.5%   | 2.6%       |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.6    | 1.7    | NA         |
| Total Debt/OPBDIT (times)                            | 6.9    | 11.8   | NA         |
| Interest Coverage (times)                            | 2.2    | 1.3    | 1.6        |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*provisional

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument                  | Current Rating (FY2023) |                          |                                                   |                                | Chronology of Rating History for the past 3 years |                              |                                 |                               |
|-----------------------------|-------------------------|--------------------------|---------------------------------------------------|--------------------------------|---------------------------------------------------|------------------------------|---------------------------------|-------------------------------|
|                             | Type                    | Amount Rated (Rs. crore) | Amount Outstanding as of Feb 28, 2022 (Rs. crore) | Date & Rating                  | Date & Rating in FY2022                           | Date & Rating in FY2021      |                                 | Date & Rating in FY2020       |
|                             |                         |                          |                                                   | May 30, 2022                   | -                                                 | Feb 26, 2021                 | May 26, 2020                    | Nov 29, 2019                  |
| 1 Fund-based/TL             | Long-term               | 68.90                    | 68.90                                             | [ICRA]BBB (Negative)           | No rating change                                  | [ICRA]BBB (Stable)           | [ICRA]BBB+ (Negative)           | [ICRA]BBB+ (Stable)           |
| 2 Non-Fund based            | Short-term              | 96.45                    | --                                                | [ICRA]A2                       | No rating change                                  | [ICRA]A2                     | [ICRA]A2                        | [ICRA]A2                      |
| 3 Fund based/Non-Fund-Based | Long Term/ Short Term   | 325.00                   | --                                                | [ICRA]BBB (Negative)/ [ICRA]A2 | No rating change                                  | [ICRA]BBB (Stable)/ [ICRA]A2 | [ICRA]BBB+ (Negative)/ [ICRA]A2 | [ICRA]BBB+ (Stable)/ [ICRA]A2 |
| 4 Unallocated               | Long Term/ Short Term   | 113.33                   | --                                                | [ICRA]BBB (Negative)/ [ICRA]A2 | -                                                 | -                            | -                               | -                             |

### Complexity level of the rated instrument

| Instrument                 | Complexity Indicator |
|----------------------------|----------------------|
| Term loan                  | Simple               |
| Non-Fund based             | Very Simple          |
| Fund based/ Non-Fund based | Simple               |
| Unallocated                | Not Applicable       |

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      | Term loans                                             | FY2019                      | NA          | FY2030        | 68.90                    | [ICRA]BBB (Negative)           |
| NA      | Short-term non-fund-based limits                       | NA                          | NA          | -             | 96.45                    | [ICRA]A2                       |
| NA      | Short-term/long-term fund based working capital limits | -                           | -           | -             | 325.00                   | [ICRA]BBB (Negative)/ [ICRA]A2 |
| NA      | Unallocated                                            | -                           | -           | -             | 113.33                   | [ICRA]BBB (Negative)/ [ICRA]A2 |

Source: BIL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

| Company Name                        | BIL Ownership | Consolidation Approach |
|-------------------------------------|---------------|------------------------|
| Bhartiya Global Marketing Ltd       | 100.00%       | Full Consolidation     |
| J & J Leather Enterprises Ltd       | 100.00%       | Full Consolidation     |
| Bhartiya International SEZ Ltd      | 88.95%        | Limited Consolidation  |
| Bhartiya Urban Infrastructure Ltd   | 100.00%       | Full Consolidation     |
| Bhartiya Fashion Retail Ltd         | 100.00%       | Full Consolidation     |
| Ultima SA, Switzerland              | 100.00%       | Full Consolidation     |
| Design Industry Ltd, Hong Kong      | 100.00%       | Full Consolidation     |
| Design Industry China Ltd           | 100.00%       | Full Consolidation     |
| Ultima Italia SRL                   | 100.00%       | Full Consolidation     |
| World Fashion Retail Ltd, Mauritius | 100.00%       | Full Consolidation     |

Source: Company

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