April 10, 2023

Bhartiya International Limited: Ratings downgraded and Withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/TL	68.90	69.50	[ICRA]BBB-; downgraded from [ICRA]BBB; outlook revised to Stable from Negative; Withdrawn
Short Term - Non-Fund Based	96.45	96.45	[ICRA]A3; downgraded from [ICRA]A2; Withdrawn
Long Term/Short Term - Fund Based/Non-Fund Based	325.00	360.00	[ICRA]BBB-; downgraded from [ICRA]BBB; outlook revised to Stable from Negative; [ICRA]A3; downgraded from [ICRA]A2; Withdrawn
Long Term/Short Term – Unallocated	113.33	77.73	[ICRA]BBB-; downgraded from [ICRA]BBB; outlook revised to Stable from Negative; [ICRA]A3; downgraded from [ICRA]A2; Withdrawn
Total	**603.68**	**603.68**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade and withdrawn of Bhartiya International Limited (BIL) factors in the likely moderation in its debt coverage metrics owing to ballooning repayments and high working capital requirements owing to its nature of operations. Despite the improvement in its operating performance in FY2022 and 9M FY2023, the credit metrics remained weak, as reflected by Debt/OPBDITA of 6 times in H1 FY2023 and interest coverage of 2.2 times in 9M FY2023. While the company's working capital cycle improved in H1 FY2023 (reflected by NWC/OI of 64% in H1 FY2023 against 93% in FY2021) with improvement in inventory turnover period, it still remains high. Given this, the utilisation of working capital limits remained high with an average utilisation of 94% in the last 10 months ending in January 2023. Owing to high debt repayments for the next few years, DSCR levels are expected to remain thin. Moreover, the ratings 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 usage. BIL is also exposed to foreign exchange fluctuation risk as it is an export-oriented company. The risk is, however, partly mitigated by a natural hedge, given its import requirements and its policy of entering into forward contracts for a part of the exposure.

Nevertheless, the ratings continue to draw comfort from the healthy sales recovery witnessed by the company, as reflected by revenues of Rs. 694 crore in FY2022 and Rs. 652 crore in 9M FY2023 on account of recovery in consumer demand for leather-based products. Together with increase in sales realisations, the company is expected to report a steady growth in revenues in FY2023. Further 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 position in the market as a leading exporter of leather garments lend comfort to the ratings. 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 Stable outlook on the [ICRA]BBB- rating reflects ICRA's expectation that the revenues and the operating profitability are likely to improve in FY2023 and FY2024. However, relatively higher scheduled debt repayment obligations and limited cushion in working capital limits are expected to keep the debt coverage metrics under pressure in the near-to-medium term.

Further, ICRA has withdrawn the ratings assigned to the bank facilities of BIL based on the receipt of request from the company and No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal.

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 (which accounted for more than 80% of its standalone revenues in FY2022 and 9M FY2023) 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 Ralph Lauren, All Saints, Esprit, Levis Strauss and Okaidi, which have been providing repeat businesses. Its ability to attract repeat business and new renowned customers reflect favourably on its operations. Given this, the company's revenues have improved to Rs. 694 crore in FY2022 and Rs. 652 crore in 9M FY2023 from Rs. 548 crore in FY2021.

Strong operational profile – BIL has 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 ~38% in 9M FY2023 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

Debt coverage metrics remained modest given high debt repayments – Given the high working capital borrowings and ballooning debt repayments, the company's coverage indicators are expected to remain modest. This is reflected in a debt/ OPBDITA of 12 times H1 FY2023 and an interest cover of 2.2 times in 9M FY2023. With the company's increased reliance on term borrowings in the past three 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.

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 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. Though the company's working capital cycle improved in H1 FY2023 (reflected by NWC/OI of 64% in H1 FY2023 against 93% in FY2021) with improvement in inventory turnover period, it remains high. ICRA further notes that the risk of inventory obsolescence for raw material stocks remains low given the long shelf life of tanned leather.

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 a gradual diversification in its regional presence, dependence on key markets remains high with the EU, the US and the UK accounting for ~23%, ~38% and ~15% of its standalone revenues, respectively, in 9M FY2023. 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 ~50% 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 the 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 the margin requirements for its working capital and capex requirements, as well as scheduled repayment obligations. BIL availed corporate loans and ECLGS in the past three years to tide over the challenges posed by the pandemic. Moreover, the company has received enhancement in its working capital limits to Rs. 360 crore from Rs. 325 crore in February 2023, which provides additional cushion. As of December 2022, BIL had a cushion of more than ~Rs. 50 crore in the form of undrawn limits and free cash/bank balances.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company significantly improves 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 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BIL. As on March 31, 2022, the company had 10 subsidiaries, which are all enlisted in Annexure-2.

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	FY2021	FY2022	9M FY2023*
Operating income	548.4	693.5	651.8
PAT	2.7	15.1	13.7
OPBDIT/OI	6.7%	5.9%	9.7%
PAT/OI	0.5%	2.2%	2.1%
Total outside liabilities/Tangible net worth (times)	1.7	1.9	-
Total debt/OPBDIT (times)	11.8	11.4	-
Interest coverage (times)	1.3	1.4	2.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Apr 10, 2023	May 30, 2022	-	Feb 26, 2021	May 26, 2020
1	Fund-based/TL	Long-term	69.50	69.50	**[ICRA]BBB- (Stable); Withdrawn**	[ICRA]BBB (Negative)	No rating change	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)
2	Non-Fund based	Short-term	96.45	-	**[ICRA]A3; Withdrawn**	[ICRA]A2	No rating change	[ICRA]A2	[ICRA]A2
3	Fund based/Non-Fund-Based	Long Term/ Short Term	360.00	-	**[ICRA]BBB- (Stable)/ [ICRA]A3; Withdrawn**	[ICRA]BBB (Negative)/ [ICRA]A2	No rating change	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
4	Unallocated	Long Term/ Short Term	77.73	-	**[ICRA]BBB- (Stable)/ [ICRA]A3; Withdrawn**	[ICRA]BBB (Negative)/ [ICRA]A2	No rating change	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/TL	Simple
Short Term-Non Fund Based	Very Simple
Long Term/Short Term - 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/TL	FY2019	-	FY2030	69.50	[ICRA]BBB- (Stable); Withdrawn
NA	Non-Fund based	-	-	-	96.45	[ICRA]A3; Withdrawn
NA	Fund based/Non-Fund-Based	-	-	-	360.00	[ICRA]BBB- (Stable)/ [ICRA]A3; Withdrawn
NA	Unallocated	-	-	-	77.73	[ICRA]BBB- (Stable)/ [ICRA]A3; Withdrawn

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Entity Name	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

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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