

Bazaar Konnections

December 29, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Packing Credit	10.0	9.35	[ICRA]B (Stable); outstanding
Fund-based Term Loan	-	3.29	[ICRA]B (Stable); assigned
Total	10.0	12.64	

Rating action:

ICRA has assigned long-term rating of [ICRA]B (pronounced ICRA B) to enhanced amount of Rs. 12.64-crore fund-based bank facilities of Bazaar Konnections (BK). The outlook on the long-term rating is Stable.

Rationale:

The assigned rating is constrained by the company's continuous weak performance in FY2018 in the absence of revival in demand. ICRA also notes the impact of withdrawal of funds by partners that has resulted in weak net worth and very high leverage of the company.

However, the ratings favourably factor in the extensive experience of the promoters of over 23 years in the leather handbag industry, their long relationship with major international brands like H&M, Next Retail and Tesco in Sweden, the US and the UK. ICRA also notes that the company's reduced scale of operations has resulted in moderate working-capital requirements.

Outlook: Stable

ICRA believes that BK's ability to revive its operating performance and capital structure will be key rating sensitivities. The firm continues to benefit from its promoters' vast experience. However, strengthening order book remains the key. The outlook may be revised to Positive if the company is able to scale up operations and capital base and improve its coverage indicators. The outlook may be revised to Negative if the withdrawals from the partner increases and the operating margin continue to decline.

Key rating drivers:

Credit strengths

Extensive experience of promoters in the leather handbags industry - The company was incorporated in 1994 for manufacturing leather and duck-fabric handbags and exporting the products to Sweden, the UK, the US and other European countries.

Long-term relationship with key international buyers - The company has an established clientele of mainly export customers from Sweden, the UK and the US. The customer base includes big brands such as H&M, Tesco and Next Retail. The exports to Sweden, the UK and the US formed 63% of the total sales in FY2017.

Credit challenges

Decline in FY2017 turnover owing to weak order inflow from existing clientele - The company witnessed a 44% decline in operating income (OI) to Rs 22.92 crore in FY2017 from Rs 40.99 crore in FY2016. The sales decreased due to weak demand in European countries, resulting in lower order inflow. The revenues were further impacted by foreign currency fluctuations and operational issues faced during demonetisation. Further, in the current year, the company achieved only Rs. 11 crore in the first eight months of operations, with its performance exacerbated by reduced management bandwidth.

Withdrawal in capital leads to weak capital structure - The withdrawal of capital to the tune of Rs 0.83 crore and Rs 1.07 crore in FY2016 and FY2017, respectively, resulted in significantly weakened capital structure. Gearing increased to 7.20 times as on March 31, 2016 from 4.09 times as on March 31, 2015. It continued to be weak at 5.66 times as on March 31, 2017. Interest coverage also weakened but remained moderate while other coverage metrics like debt service coverage ratio (DSCR) continued to be weak. The company's working-capital requirements remained modest on a smaller scale, though its limit utilisation remained high in the backdrop of capital withdrawals.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

BK, established in 1994, is a partnership firm under Mr. Manpreet Singh and his wife Mrs. Neetu Kaur. The firm is involved in manufacturing leather and duck-fabric ladies bags and exporting the products to the UK, the US, Sweden and other European countries. The firm has diversified client base with significant brands under it. The company has a manufacturing facility in Udyog Vihar, Gurgaon (owned) covering an area of 18,000 square feet. The firm had also constructed another manufacturing facility in Bahadurgarh.

BK manufactures leather bags of different colours, designs, shapes and sizes as per customers' specifications. The company has an in-house designing unit.

In FY2017, the company reported a net profit of Rs. 0.35 crore on an operating income (OI) of Rs. 22.92 crore compared with a net profit of Rs. 1.11 crore on an OI of Rs. 40.99 crore in the previous year.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	40.99	22.92
PAT (Rs. crore)	1.11	1.83
OPBDIT/ OI (%)	8.72%	7.98%
RoCE (%)	12.34%	7.29%
Total Debt/ TNW (times)	7.20	5.66
Total Debt/ OPBDIT (times)	5.92	6.44
Interest Coverage (times)	2.81	1.78
NWC/ OI (%)	33.39%	19.0%

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2017	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2015
1 PC/PCFC	Long Term	9.35	NA	[ICRA]B (Stable)	August 2017 [ICRA]B (Stable)	March 2016 [ICRA]B+	-
2 Term Loan	Long Term	3.29	3.29	[ICRA]B (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website 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
	PC/PCFC	NA	NA	NA	9.35	[ICRA]B (Stable)
	Term Loan	April, 2017	NA	March, 2024	3.29	[ICRA]B (Stable)

Source: Bk

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