Bhartiya International Limited

December 22, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	36.67	40.65	[ICRA]A (Stable); Reaffirmed
Long-term – Non-fund based facilities	0.50	0.50	[ICRA]A (Stable); Reaffirmed
Short-term – Non-fund based facilities	181.85	176.85	[ICRA]A1; Reaffirmed
Long-term/ Short-term – Fund-based/Non-fund based^	113.00	123.00	[ICRA]A (Stable)/ [ICRA]A1; Reaffirmed
Long-term/ Short-term – Fund-based facilities^	253.20	293.20	[ICRA]A (Stable)/ [ICRA]A1; Reaffirmed
Total	**585.22**	**634.20**	

^These limits are interchangeable on long term and short term scale. In case the limits are availed as short term facilities, the short-term rating will be applicable and in case the limit is availed as long term facility, the long-term rating will be applicable. The overall utilisation by way of long-term and short-term facilities cannot exceed the stated amount.
Source: ICRA

Rating action

ICRA has re-affirmed the ratings outstanding for the Rs. 634.20-crore[1] (enhanced from Rs. 585.22 crore earlier) bank facilities of Bhartiya International Limited (BIL) at [ICRA]A (pronounced ICRA A)[2] on a long-term scale and [ICRA]A1 (pronounced ICRA A one) on a short-term scale. The outlook on the long-term rating continues to be Stable.

Rationale

The ratings continue to derive strength from BIL's strong operational profile characterised by its long and successful operating history of more than two decades, integrated nature of its operations spanning across designing, manufacturing and marketing activities, experienced promoters and a professional management team, which has facilitated establishment of a large base of active and reputed clientele, providing it repeat business. Further, the ratings continue to derive comfort from BIL's steady financial profile characterised by stable profitability and accruals, regular equity infusion and comfortable debt-servicing indicators (debt-service coverage ratio of ~1.97 times and an interest cover of ~2.85 times for FY2017). While ICRA notes that transition to Goods and Services Tax (GST) and revised export incentive regime resulted in higher funds getting blocked in working capital for the company during H1 FY2018, these changes are expected to be transitory. While timely enhancement in sanctioned working-capital limits and incremental equity infusion helped the company tide over the increased working-capital requirements, ICRA derives comfort from availability of surplus sanctioned limits which can be potentially tapped, subject to availability of drawing power.

The ratings, however, continue to be constrained by the highly working-capital intensive nature of the company's operations, given the seasonality inherent in its key segment (viz. leather garments) and a long operating cycle to cover integrated operations, which has kept its fund flow from operations negative over the years. Nevertheless, given the company's practice of manufacturing against firm orders and exports against ECGC cover/LCs/ and insurance against bad debts, risk of inventory obsolescence and credit risk are mitigated to a large extent. Further, the ratings continue to factor in high dependence on the leather segment, geographical concentration risk with high dependence (~50%) on

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

European markets as well as client-concentration risk with top-five customers accounting for ~49% of the standalone sales. However, the company's ongoing efforts for diversifying its product profile, customer base as well as geographical presence which is evident in improvement in its business profile over the years, provides comfort. Moreover, the company continues to remain exposed to industry risk arising from growing protests against use of animal skins in its leather segment. Being an export-oriented company, BIL is also exposed to foreign exchange risk though the risk is partly mitigated from a natural hedge, given its import requirements as well as its policy of entering into forward contracts for part of the exposure which has helped the company report stable profit margins over the years.

In ICRA's view, BIL's ability to sustain a healthy growth in its revenues, while improving its profitability as well as prudently managing its working-capital cycle; and to achieve higher product, client as well as geographical diversification, will remain the key rating sensitivities. Further, any increase in investment in the group's real-estate operations or future consolidation of the fashion and real-estate business lines will entail a re-assessment of the credit profile.

Outlook: Stable

The Stable outlook reflects ICRA's expectation of sustained growth in H2FY2018 and recovery in margins towards historical levels, in the near to medium term. Besides supporting scale, gradual increase in revenues from finished leather segment is expected to result in shorter working-capital cycle, to gradually align with peers in the industry. Although the company's working capital borrowings have been increasing over the past few years, reasonable accrual generation, limited debt repayment obligations, and timely enhancement in working-capital limits as well as regular equity infusion over the past few years provide some comfort. Nevertheless, working-capital indicators continue to be a key rating sensitivity.

Key rating drivers

Credit strengths

Established track record of over two decades in the leather apparel business- BIL has a long operating history of over two decades in the leather apparel business with an established track record of getting repeat business from reputed clients. The group is one of the largest exporters of leather apparels from India and derives its revenues mainly from export of leather products (~95% of standalone revenues). On a consolidated basis, BIL's revenues grew at a CAGR of ~21% from FY2012-2017, reflecting continued and strong association with reputed clients like All Saints, Esprit, Oriflame, Okaidi etc.

Strong and integrated operational profile- BIL's operational profile is characterised by integrated in-house designing, tannery and manufacturing facilities, and diversified operations across products (such as accessories, textile apparels and outerwear etc.) and geographies (Europe, Asia-Pacific and Americas). Over the past few years, BIL has been gradually yet consistently diversifying and expanding its operations across new product categories (venturing into categories such as textile apparels, leather accessories, PU leather products, woven outerwear, finished leather etc.) as well as new geographies (increasingly focusing on the US and Asian markets). Although contribution of other markets has increased in the recent years, dependence on European markets continues to be high at more than ~50% of the total standalone revenues.

Financial profile characterised by comfortable debt-servicing indicators- Despite increase in scale and incremental working-capital requirements, BIL's funding requirements have partly been met from timely equity infusions over the years. Moreover, with surplus capacities available, the capex and hence long-term funding requirements remained low. As a result, with steady accruals, the debt-servicing indicators remain comfortable as reflected in DSCR (Debt-service coverage ratio) of ~1.96 times and an interest cover of ~2.85 times in FY2017.

Credit weaknesses

High inventory levels, resulting in a stretched operating cycle- Given the integrated nature of operations and the requirement to procure similar quality of leather for bulk orders as per customers' requirements, BIL's business entails holding a sizeable raw-material inventory. This along with consistently increasing order-book position (corroborated by a healthy CAGR of 21% in BIL's top line between FY2012 and FY2017) has resulted in an increase in the company's operating cycle over the years. Further, high growth in turnover together with moderate operating profitability and increasing working-capital intensity have kept the company's liquidity profile moderate, as reflected in modest/ negative fund flows from operations, reported over the last five financial years. Inventory obsolescence risk is, however, mitigated to an extent as finished goods inventory is primarily against confirmed orders.

High geographical concentration with continued dependence on European nations- With increase in exports to Asian and American markets over the years, BIL's regional presence is gradually diversifying, as reflected in a decline in share of exports to European region from ~94% in FY2012 to ~50-60% in FY2017. In spite of that, dependence on European markets continues to remain high. This exposes the company to risks arising from adverse regional developments.

Intense competitive pressure from international suppliers, exposure to foreign exchange and regulatory risks – Being an export-oriented entity, BIL remains exposed to geographical and currency risks on account of fluctuations in foreign-currency movements. Though the forex risk is mitigated to some extent by the company's hedging policy with respect to use of forward contracts and partly by natural hedge, the same remains vulnerable to management discretion. Moreover, leather products continue to face regulatory risk on account of growing protests against use of animal skins and other factors. Further, revenues and profitability remain susceptible to regulatory risks such as changes in duty structure, preferential tariff systems etc. which could potentially impact competitiveness of the company's products.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of the entity, comprising BIL, its ten subsidiaries[3] and two associates[4], owing to significant ownership, operational and financial inter linkages (BIL has Standby Letter of Credit amounting to Rs. 71.1 crore issued by its bankers in favour of its subsidiaries; and also corporate guarantee given to a bank for funding availed by its wholly-owned subsidiaries, amounting to Rs. 16.43 crore). Most international subsidiaries primarily act as BIL's marketing arms in the international markets. Further, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology]
[Rating Methodology for Indian Textiles Industry – Apparels]

[3] Bhartiya Global Marketing Ltd, J&J Leather Enterprises Ltd, Bhartiya International SEZ Ltd, Bhartiya Fashion Retail Ltd, Bhartiya Urban Infrastructure Ltd, Ultima S.A. Switzerland, World Fashion Trade Ltd (Mauritius), Ultima SRL (Italy), Design Industry Ltd (Hong Kong), and Design Industry China Ltd

[4] Tada Mega Leather Cluster Pvt Ltd (~50% stake held by BIL) and Bhartiya Urban Infrastructure & Land Development Co Pvt Ltd (Since merged with Bhartiya City Developers Pvt. Ltd.)

About the company:

Initially incorporated as Bhartiya Galecha Industries Private Limited in January, 1987, Bhartiya International Limited or BIL (name changed 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 countries like Spain, France, Austria, Italy, Switzerland, the US and Canada. The company's manufacturing facilities are located in Bangalore (Karnataka), Chennai (Tamil Nadu) and Nellore (Andhra Pradesh). The company is backward integrated with its own tannery facilities located in Chennai (Tamil Nadu). As a part of the forward integration initiatives, the company has also established its own design house in Italy, the manufacturing for which is done in India. It also trades in textile apparels for which designing, raw-material procurement as well as marketing activities are done in-house, while manufacturing is being outsourced to manufacturers in China and Bangladesh at present.

Key Financial Indicators (Audited)

Consolidated	FY 2016	FY 2017
Operating Income (Rs. crore)	622.2	645.9
PAT (Rs. crore)	22.7	21.8
OPBDIT/ OI (%)	8.6%	8.0%
RoCE (%)	12.8%	10.6%
Total Debt/ TNW (times)	1.00	1.01
Total Debt/ OPBDIT (times)	4.18	5.10
Interest coverage (times)	2.78	2.85
NWC/ OI (%)	46%	50%

Note: OI: Operating Income; PAT: Profits after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Average (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016		Date & Rating in FY2015
					Dec- 2017	Mar-2017	Feb-16	Jun-2015	Jan-2015
1	Fund-based facilities – Term Loans	Long term	40.65	40.65^	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-fund based facilities – Bank Guarantee	Long term	0.50	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund based facilities –Letter of Credit/ SBLC	Short term	176.85	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	Fund-based/Non-fund based facilities^^	Short-term/ Long-term	123.00	--	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+
5	Fund-based-Working Capital	Short-term/ Long-term	293.20	--	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A2+
	Total		**634.20^**						

Note: LT: Long Term; ST: Short Term
^Outstanding as on September 30, 2017
^^ Includes Packing Credit/Buyers' Credit/Letter of Credit

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
NA	Term loans	Sept-2015	NA	FY2029	37.50	[ICRA]A(Stable)
NA	Working capital fund based limits	--	--	--	293.20	[ICRA]A(Stable)/ [ICRA]A1
NA	Non-fund based limits- Bank Guarantee	--	--	--	0.50	[ICRA]A(Stable)
NA	Non-fund based working capital limits	--	--	--	176.85	[ICRA]A1
NA	Fund-based/ Non-fund based limits	--	--	--	123.00	[ICRA]A(Stable)/ [ICRA]A1

Source: Bhartiya International Limited

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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.

For more information, visit www.icra.in

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