Dollar Industries Limited

May 23, 2022

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Positive (Single A Plus; Outlook: Positive) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1+ (A One Plus) and Withdrawn
Total Bank Facilities	**-**	-	

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings has reaffirmed and withdrawn the outstanding ratings of 'CARE A+; Positive/CARE A1+' [Single A Plus; Outlook: Positive/A One Plus] assigned to the bank facilities of Dollar Industries Ltd (DIL) with immediate effect. The above action has been taken at the request of DIL and 'No Objection Certificate' (NOC) received from the lenders that have extended the bank facilities rated by CARE Ratings.

The ratings assigned to the bank facilities of DIL continue to derive strength from the long track record and established brand presence of the company in the hosiery industry supported by its strong distribution network and wide geographical presence apart from effective advertising. The ratings also factor in the partial backward integration available with the company and its diversified product profile.

The ratings also draw strength from the comfortable capital structure and debt coverage indicators. The company has deployed the increased cash generation from the business over the years to fund its working capital requirement to a large extent which has resulted in moderate debt level despite growing scale of operations. The debt protection metrics are expected to remain comfortable over the medium term with no significant planned capital expenditure and healthy cash generation.

While sales growth was restricted in FY21 (refers to the period April 1 to March 31) due to the impact of the Covid-19 pandemic, the company has achieved significant improvement in total operating income (TOI) to Rs.977.31 crore in 9MFY22 as against Rs.728.64 crore during 9MFY21. The PBILDT margin has also witnessed improvement during the period.

The demand outlook for the innerwear industry continues to remain stable, albeit with expectation of gradual increase in market share of the organised sector. With intense competition prevailing from both organised and unorganised players in the industry, the company has exhibited moderate growth in its scale of operations in the past. Going forward, with expansion in distribution network and various brand building initiatives planned by the company, CARE Ratings expects its scale of operations to witness better growth.

The ratings, however, continue to remain constrained by the working capital intensity of business and exposure to volatility in raw material prices apart from presence in the intensely competitive industry.

Outlook: Positive

The outlook on the long-term rating of DIL remains 'Positive' on the expectation of increase in its scale of operations along with improvement in its operating profitability (PBILDT) margins going forward resulting in sustenance of its healthy debt protection metrics. The reduction in its average collection period witnessed in FY21 is also expected to continue along with further rationalisation of its inventory levels which is expected to result in improvement in its operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Established brand presence with diversified product portfolio

The company over the years has broadened its product portfolio, which now spans innerwear products across wide price ranges, thermal wear, casual wear and athleisure wear. DIL has been able to establish itself in the highly competitive economy and mid-premium inner wear segment. The continuous addition of new products across segments through its established brands like Bigboss, Regular, Missy, ForceNXT, etc with focus on replenishing the design inventory regularly has aided DIL to carve out a decent market share in the intensely competitive domestic hosiery industry.

Continued improvement in TOI and profitability margins with comfortable debt coverage indicators

In 9MFY22, DIL reported increase in TOI by about 34% to Rs.977.31 crore over 9MFY21 driven by better off-take, improved sales mix and realisations. PBILDT and PAT margins also expanded to 16.51% and 11.13% respectively as compared with 14.68% and 9.22% respectively during 9MFY21.

With the growth in sales, DIL's working capital requirements have increased which has been funded through internal generations, higher creditors and through increase in working capital borrowings. Consequently, its outstanding working capital borrowings increased as on December 31, 2021. Nevertheless, with healthy accretion of profits to networth, the leverage is expected to remain comfortable. Interest coverage ratio stood healthy at 32.39x in 9MFY22 as compared with 14.28x in 9MFY21.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Going ahead, with the management aiming to increase market share by further expanding its distribution network, the scale of operations is expected to increase which is expected to continue to aid its profitability margins. Furthermore, in the absence of any plans to avail additional term debt in the medium term, the debt profile is expected to remain stable.

Strong distribution network
The company has aggressively pursued various marketing and promotional activities to improve its geographical reach and compete with existing players in the industry. DIL has a wide distribution network of over 1,000 dealers and over 1,00,000 retailers with pan-India presence. Further, the company is also exporting its products to 13 countries, though export sales only contributed to about 6% of sales in FY21. It has also planned to grow its online sales which would be helpful in the current environment.

Availability of partial backward integration
DIL has set up a factory for backward integration in the form of spinning and knitting mill near Tirupur (in Tamil Nadu) which caters for 30-35% of the company's raw material requirements and helps to mitigate the fluctuations in raw material prices and quality to a certain extent. The company owns 5MW of windmills in Tamil Nadu, which caters to the power requirement of its spinning mill. DIL, in FY21, commissioned a solar power plant with a capacity of 4MW in Tirupur for captive consumption. Consequently, power cost reduced in FY21.

Long track record of operations and significant experience of promoters
Mr. Dindayal Gupta, ex-Chairman of the company has been in the textile industry since 1973. His son, Mr. Vinod Kumar Gupta, MD, with an experience of around three decades, is administering the financial and marketing strategies of the company. The promoters have also infused funds in the past to support its growing scale of operation and cater to the working capital requirements.

Stable demand prospects
The Indian innerwear industry is dominated by the unorganised segment which accounts for a large part of the overall market share. However, the market is gradually shifting towards organised retail/branded products. Going ahead, the outlook for the innerwear industry is expected to remain stable, albeit with gradual increase in market share of the organised segment of the industry.

Key Rating Weaknesses
Elongated working capital cycle
The working capital cycle of DIL is high despite marginal improvement witnessed in FY21 wherein it improved to 224 days compared with 235 days in FY20. The same was primarily due to improvement in collection period which stood at 120 days in FY21 vis-à-vis 132 days in FY20. Inventory holding period is also high and stood at 156 days in FY21 vis-à-vis 159 days in FY20 as the company markets a wide range of products and accordingly has to maintain large quantity of inventory of each of its product type apart from the inventory of raw material. Going ahead, improvement in its operating cycle shall remain a key rating sensitivity.

Exposure to volatility in raw material prices
Raw material cost, which forms around 50% of total cost, comprises mainly of cotton, yarn and fabric. Yarn and cotton being commodity in nature have volatile price movements and the profitability of the company remains exposed to such price movements. However, partially integrated nature of operations mitigates the risk to a certain extent.

Intensely competitive industry
The unorganised sector dominates the industry and there are few key players in the branded innerwear segment, including DIL. It remains exposed to significant competition from both the organised and the unorganised sector players for its various product segments due to which the company has exhibited moderate growth in its scale of operations in the past. However, with the unorganised sector more affected in terms of labour issues and stretch on liquidity and working capital due to the pandemic, the organised players have been gradually increasing their market share.

Liquidity: Adequate
DIL has adequate liquidity in the form of cash & cash equivalents to the tune of Rs.14.27 crore as on December 31, 2021. The company has moderate working capital utilisation of 74.38% (sanctioned limit: Rs.200 crore) for trailing 12 months ended January 2022. Furthermore, it does not have significant term debt repayment obligations. Also, it does not have any major capex plans in the medium term. The company is expected to earn adequate cash accruals to meet its debt repayment obligations and working capital requirements in FY23. The company is building a warehouse in a hosiery park in West Bengal and the expected expenditure on the same (around Rs.50 crore) can be met out of internal generations.

Analytical approach: Standalone.

Applicable Criteria
[Policy on Withdrawal of ratings]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Rating Methodology for Cotton Textile Manufacturing]
[Criteria for Short Term Instruments]
[Financials Ratio-Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
DIL is primarily engaged in manufacturing innerwear for men, women, and kids. The company also manufactures athleisure, kids wear, along with thermals/winter wear and lounge wear. "Dollar" brand for hosiery was established by Mr. Dindayal Gupta, in 1973 through a proprietorship firm, Bhawani Textiles, and converted into a public limited company in 1993. The company has an extensive product portfolio and markets its products under Dollar Man, Dollar Woman, Dollar Junior, Dollar Always and Dollar Thermals to cater to the requirements of all classes of people. DIL has a distribution network of over 1,000 dealers and over 1 lakh retailers.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total Income	971.81	1040.44	980.05
PBILDT	109.81	141.26	161.32
PAT	59.45	87.28	108.76
Overall gearing (times)	0.47	0.24	NA
Interest coverage (times)	6.72	15.51	32.39

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	Dec 2023	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A+; Positive (24-Aug-21)	1)CARE A+; Stable (06-Jan-21) 2)CARE A+; Stable (27-Aug-20)	1)CARE A+; Stable (06-Aug-19)
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (27-Aug-20)	1)CARE A1+ (06-Aug-19)
3	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (27-Aug-20)	1)CARE A1+ (06-Aug-19)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Positive (24-Aug-21)	1)CARE A+; Stable (06-Jan-21) 2)CARE A+; Stable (27-Aug-20)	1)CARE A+; Stable (06-Aug-19)
5	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (06-Aug-19)
6	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (27-Aug-20)	1)CARE A1+ (24-Oct-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Mamta Muklania
Contact no.: +91-33-4018 1651
Email ID: mamta.khemka@careedge.in

Relationship Contact
Name: Lalit Sikaria
Contact no.: + 91-33- 4018 1607
Email ID: lalit.sikaria@careedge.in

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