Dollar Industries Limited

August 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	154.00	**CARE A+; Positive (Single A Plus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable**
Short Term Bank Facilities	1.17	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**155.17 (Rs. One Hundred Fifty-Five Crore and Seventeen Lakhs Only)**		
Commercial Paper (Carved Out)	**50.00 (Rs. Fifty Crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instrument of Dollar Industries Limited (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. Additionally, the ratings take note of company's tie up with a reputed international brand to foray into the super-premium segment; albeit this is presently at a nascent stage.

The ratings also factor in the steady improvement in its capital structure and debt coverage indicators with gradual reduction in debt level and increase in net worth base over the years. The company has deployed the increased cash generation from the business to fund working capital requirement which has resulted in reduction in debt level and moderate utilisation of its fund based working capital limits. The debt protection metrics are expected to remain comfortable over the medium term with no significant planned capital expenditure and healthy cash generation.

Despite significant de-growth in sales during Q1FY21 (refers to the period April 1 to June 30) on account of the impact of Covid-19 pandemic, there was moderate y-o-y growth in sales and improvement in DIL's operating profitability (PBILDT) margins during FY21 (refers to the period April 1 to March 31); albeit its total operating income (TOI) and profitability was largely at similar level as in FY19. 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 expects its scale of operations to witness better growth.

The ratings, however, continue to remain constrained by its elongated working capital cycle and exposure to volatility in raw material prices apart from presence in the intensely competitive industry which has kept DIL's profitability margins at moderate levels.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Increase its scale of operations with TOI beyond Rs.1,300 crore through volume driven growth on a sustained basis.
- Improvement in its PBILDT margin to around 15% on sustained basis.
- Improvement in its operating cycle to below 180 days on a sustained basis.

Negative Factors - Factors that could lead to negative rating action/downgrade

- Stretching of its inventory holding period and average collection period resulting in operating cycle moving beyond 250 days on a sustained basis.
- Pressure on revenues and earnings resulting in PBILDT margin < 10% on a sustained basis.
- Deterioration in its overall gearing to over unity and Total debt to Gross Cash Accruals (TDGCA) of more than 3x on sustained basis.

Outlook: Positive

The outlook on the long-term rating of DIL has been revised to '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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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. The outlook may be revised to 'Stable' in case of lower-than-expected growth in sales and/or inability to sustain profitability margin and reduce 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. In FY21, the company also started manufacturing masks and PPE kits under *Dollar Protect* brand and introduced a range of anti-viral vests to take advantage of the evolving demand scenario.
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. *Bigboss and Regular* brands comprised around 65% of its total revenue during FY21.

Steady improvement in TOI and profitability margins during FY21 resulting in comfortable leverage and debt coverage indicators
The TOI of DIL witnessed moderate growth of about 7% in FY21 to Rs. 1,039.80 crore driven by increase in sales volume during the year despite the impact of pandemic especially in Q1FY21. The operating (PBILDT) margins also improved primarily on account of lower average raw material cost and advertisement spends. The margin had earlier declined in FY20 on account of volume degrowth and impact of Covid-19 on its sales of Q4FY20.
With improvement in PBILDT and lower interest outgo, the interest coverage ratio improved to 15.51x in FY21 as against 6.72x in FY20. In addition to improved profitability, DIL's working capital requirements also reduced with healthy cash flow from operations thereby resulting in improvement in its overall gearing and TDGCA to 0.24x and 1.26x as against 0.47x and 2.98x as on March 31, 2020, respectively.
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 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 prevailing environment.

Tie-up with a reputed international brand
DIL had entered into a Joint Venture (JV) with Pepe Jeans, Europe B. V. with 50% partnership to enter the super-premium segment. DIL has invested Rs.10 crore till March 31, 2021. The JV is primarily engaged in sale and distribution of the licensed products viz., innerwear and loungewear including gym wear, sleepwear and track suits under the brand *Pepe Jeans London*. The JV has commenced its operations and is expected to gradually increase its scale of operations along with market share in the super-premium segment. The JV incurred a net loss of Rs.3.93 crore on revenue of Rs. 17.19 crore in FY21. The scaling up could not happen in FY21 due to the impact of the pandemic.

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. The reason for the shift can be attributed to the organised players increasing their penetration through brand building initiatives and due to the increasing fashion consciousness among the youths. Consequently, organised players are focussing on widening the innerwear product portfolio. With the entry of global players, the premium innerwear segment is also expanding due to favourable demography and higher disposable income. 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 continues to remain elongated 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 Analysis: Adequate

DIL has adequate liquidity in the form of cash & cash equivalents to the tune of Rs.7.29 crore as on March 31, 2021. The company has available undrawn working capital lines from banks as it has a moderate average working capital utilisation of 53.65% (sanctioned limit: Rs.149 crore) for trailing 12 months ended June 30, 2021. The cash accruals are likely to adequately meet the scheduled term debt repayments aggregating to Rs.2.14 crore in FY22. The company is building a warehouse in West Bengal and the expected capex on the same can be met out of internal cash accruals.

Analytical Approach: Standalone

Applicable Criteria

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)
Total income	971.81	1,040.44
PBILDT	109.81	141.26
PAT	59.45	87.28
Overall gearing (times)	0.47	0.24
Interest coverage (times)	6.72	15.51

A: Audited

As per the unaudited published results, DIL earned a PAT of Rs.23.11 crore on a TOI of Rs.205.50 crore during Q1FY22 as compared with a PAT of Rs.16.44 crore on a TOI of Rs. 159.63 crore during Q1FY21.

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: 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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	149.00	CARE A+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.67	CARE A1+
Fund-based - LT-Term Loan	-	-	Dec-2023	5.00	CARE A+; Positive
Commercial Paper-(Carved out)	-	-	7 - 364 days	50.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	149.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Jan-21) 2)CARE A+; Stable (27-Aug-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (25-Sep-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1+	-	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (27-Aug-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (25-Sep-18)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.67	CARE A1+	-	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (27-Aug-20)	1)CARE A1+ (06-Aug-19)	1)CARE A1+ (25-Sep-18)
4.	Fund-based - LT-Term Loan	LT	5.00	CARE A+; Positive	-	1)CARE A+; Stable (06-Jan-21) 2)CARE A+; Stable (27-Aug-20)	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (25-Sep-18)
5.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Aug-19)	1)CARE A+; Stable (25-Sep-18)
6.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (27-Aug-20)	1)CARE A1+ (24-Oct-19)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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