# Dollar Industries Limited

August 27, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 230.00 (reduced from 256.65) | **CARE A+; Stable (Single A Plus; Outlook: Stable)** | **Reaffirmed** |
| Short-term Bank Facilities | 1.17 | **CARE A1+ (A One Plus)** | **Reaffirmed** |
| **Total Facilities** | **231.17 (Rupees Two hundred thirty one crore and seventeen lakh Only)** | | |
| Proposed Commercial Paper (CP) issue* | **50.00 (Rs. Fifty crore only)** | **CARE A1+ (A One Plus)** | **Reaffirmed** |

*Details of instruments/facilities in Annexure-1*
**carved out of the sanctioned working capital limits of the company.*

**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 of operations and experience of the promoters in the hosiery industry, satisfactory financial performance in FY20 (refers to the period April 01 to March 31), and Q1FY21 amid decline in turnover, backward integration measures, established brand presence, diversified product portfolio and presence in premium segment, effective marketing spends and strong distribution network with wide geographical presence, tie-up with a reputed International brand**,** comfortable capital structure and liquidity position. The ratings are, however, constrained by the elongated working capital cycle, volatility in the prices of raw materials, and intense competition from organized and unorganized players.

Rating Sensitivities

*Positive Factors*

- The ability of the company to increase its scale of operations beyond Rs.1300 crore on a sustained basis
- Improve operating margin above 13% on a sustained a basis
- Improvement in operating cycle below 200 days on a sustained basis

*Negative Factors*

- Further stretch of inventory holding period and average collection period resulting in operating cycle above 300 days on a sustained basis
- Sustained pressure on revenues and earnings with PBILDT margin going below 10% on a sustained basis
- Overall gearing of over 1x and TD/GCA of more than 3.50x

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Long track record of operations, significant experience of promoter and fund support***

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 regularly infused funds in the past to support growing scale of operation and cater to the working capital requirement.

***Established brand presence with diversified product portfolio***

Focusing initially on the economy innerwear segment, the company has over the years broadened its product portfolio, catering to both premium and economy class which spans innerwear products across all price ranges, thermal wear and casual outer wears. DIL has grown over the last decade and chartered a decent market share in the intensely competitive domestic hosiery industry.

DIL entered the innerwear segment with its 'Bigboss' range of innerwear. In 2016, the company launched its "Force NXT" range of innerwear in the premium segment. It continues to introduce new SKU's in premium ranges and is continuously upgrading the designs, quality and comfort of its product through R&D process. In FY19 the company has introduced Athleisure range in Bigboss and Force NXT brand. In FY20, the company also revamped its e-commerce platform and made it

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

user friendly as the consumers increasingly opt for online shopping due to the social distancing norms amidst the pandemic. In Q1FY21, DIL launched anti-virus range of products to tap the growing market for hygienic and safer products.

***Effective marketing spends and strong distribution network***

The company has aggressively pursued various marketing and promotional activities to compete with existing players in the industry. The ad spends as a percentage of net sales reduced from 10% in FY19 to 7.4% in FY20, which is now more or less in line with other industry players. DIL has a wide distribution network of over 950 plus dealers and 1,00,000 plus retailers with presence in 29 States. Further the company is also exporting its products in 13 countries.

***Tie-up with a reputed International brand***

The company had entered into a Joint Venture with Pepe Jeans, Europe B. V. with 50% partnership to enter the super-premium segment. DIL has invested Rs.10 crore till March 31, 2020. 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 name Pepe Jeans London. The J.V has commenced its operations and will gradually increase its scale of operations along with market share in the super-premium segment. The JV incurred a net loss of Rs.4.2 crore in FY20 on revenue of Rs.16.1 crore.

***Satisfactory financial performance in FY20 and Q1FY21 amid decline in turnover***

Net sales witnessed a y-o-y decline of 6% in FY20 on account of decline in the sales volume for all the major products on account of loss of sales of approximately Rs.80.0 crore in the month of March, 2020 due to the nationwide lockdown imposed by the government in an attempt to contain COVID-19 pandemic. This is in line with the industry trend. However, the PBILDT margin declined to 10.91% in FY20 from 13.26% in FY19. GCA was comfortable at Rs.72.5 crore vis-à-vis total debt repayment obligation of Rs.12.2 crore in FY20.

In Q1FY21, the total operating revenue declined by 32% from Q1FY20. The decline in sales of DIL was higher than the industry average due to slower ramp up of production leading to inability to fulfil the orders. However, the PBILDT margin improved to 18.02% in Q1FY21 vis-à-vis 11.67% in Q1FY20 because of decrease in raw material price and saving in sub-contracting expenses. DIL earned a GCA of Rs.19.4 crore vis-à-vis total debt repayment obligation of Rs.0.4 crore in Q1FY21.

***Comfortable capital structure***

The capital structure of the company improved with overall gearing ratio of 0.45x as on March 31, 2020 on the back of increase in net worth due to accretion of profits. The TD/GCA of the company moderated and stood at 2.98x as on March 31, 2020 vis-à-vis 2.61x as on March 31, 2019 on account of decline in GCA. The overall gearing ratio is expected to remain comfortable going forward on account of absence of any major capex requirement and accretion of profit to reserves.

***Diversified geographical presence albeit lower penetration in Southern India***

DIL has geographical presence across entire India with lower penetration in Southern India. Northern region contributed 40% of net domestic sales in FY20, followed by Eastern region with a contribution of 25% and Western region contributing to 25% of net sales in FY20. Presence in Southern region is low with only 10% contribution to net sales in FY20.

**Key Rating Weaknesses**

***Raw material price fluctuation risk partly mitigated by various backward integration initiatives***

The major raw material for DIL is cotton, yarn and fabric. Raw material cost formed about 44% of the total cost of sales in FY20 vis-à-vis 46% of total cost of sales during FY19. The yarn prices are dependent on the prices of cotton which being commodity in nature have volatile price movements. DIL has backward integration in the form of spinning mill, processing unit for bleaching and dyeing in Tamil Nadu which results in better operating efficiency and margin. The company also owns 5 MW of windmills at Dindigul in Tamil Nadu, which caters to part of the company's electricity requirements. DIL is also in the process of setting up of a solar power plant of 4MW capacity in Tirupur also for captive consumption.

***Working capital intensiveness and deterioration in operating cycle***

The working capital cycle elongated to 234 days in FY20 from 209 days in FY19 primarily on the back of increase in collection period which stood at 132 days in FY20 vis-à-vis 109 days in FY19. The operating cycle further deteriorated to 328 days in Q1FY21 due to decline in scale of operation during the period. Inventory holding period is generally high as the company markets a wide range of products and accordingly has to maintain sufficient amount of inventory of each of its product type. Also, due to the backward integration of the plant the company needs to maintain an average inventory of Rs.50.0 crore of raw cotton for its spinning mills which leads to high inventory holding of raw material. Improvement in operating cycle shall remain the key rating monitorable.

***Intensely competitive industry***

The textile industry has two broad segments. The first is the unorganized sectors which comprise of small scale handicraft units and using traditional tools and methods. The second is the organized sector consisting of spinning, apparel and garments segment which applies modern machinery and techniques to avail the advantage of economies of scale. With implementation of GST, the organized sector has benefitted in terms of market share. DIL has grown over the last decade and chartered a decent market share. The management intends to leverage the growing brand equity of Dollar to mitigate competition to an extent.

***Impact of COVID-19***

In the advent of nationwide lockdown imposed by the GoI, DIL had temporarily shut down all its manufacturing facilities since March 25, 2020 and with the permission of local authorities, resumed operations at its spinning mills gradually starting May 07, 2020 in a phased manner. The company saw a spike in demand in Q1FY21 and suffered a loss of sales as it was unable to cater to the same at the given capacity.

***Industry Outlook***

The demand for textiles is expected to face headwinds in both the markets, domestic and international. The closure of retail stores and malls on account of lockdown situation across the nation will affect the industry's sales. Even after the lockdown is lifted, demand for textiles shall take time to pick up since the footfalls will be low in malls and retail stores as people avoid visiting crowded markets. In addition to this, labour disruption will also affect the total textile production numbers. However, demand in innerwear segment is likely to be relatively more resilient than other apparel product categories.

Liquidity : Adequate

The liquidity position of DIL is adequate marked by free cash and cash equivalents of Rs.10.3 crore as on June 30, 2020 and Rs.5.9 crore, as on March 31, 2020 vis-à-vis Rs.20.7 crore, as on March 31, 2019. The company earned satisfactory GCA of Rs.72.5 crore in FY20 which was utilized to repay term loan and reduction in trade payables. Further the company had also paid dividend of Rs.11.6 crore and invested Rs.12.0 crore towards Tirpur solar power plant, and regular capex of Rs.9.1 crore in FY20. The company has not availed moratorium under RBI COVID-19 package scheme.

GCA is expected to remain satisfactory going forward vis-à-vis low debt repayment obligation of Rs.1.7 crore. The average of month end utilization of working capital limit for the last 12 months ended June 30, 2020 was moderate at 71%. With the absence of any major capex in the medium term, the liquidity position of the company is expected to remain satisfactory unless the operating cycle witness further stretch.

**Analytical approach:** Standalone

**Applicable Criteria**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
CARE's methodology for manufacturing companies
Rating Methodology for Cotton Textile Manufacturing

**About the Company**

"Dollar" brand for hosiery was established by Mr. Dindayal Gupta, in 1973 through a proprietorship firm, Bhawani Textiles, and was converted into a Public Limited Company in 1993. DIL is primarily engaged in manufacturing innerwear for men, women and kids, which contributed approximately 80-85% to its revenue over the last few years. The company also makes casual wear under the brand name "Force Go Wear" along with thermo/winter wear and athleisure wear which together contribute to the balance 15%-20% of the total revenue. The company's products are mainly sold in the domestic market under the brand names "Bigboss", "Missy", "Ultra Thermal", "Champion Kids", "Force Go Wear" and "Force NXT". Post re-branding announced in May, 2020, the brand has created 5 broad categories – Dollar Man, Dollar Woman, Dollar Junior, Dollar Always, and Dollar Thermals under which there are various products. Additionally, Force NXT, RKG, Force Go Wear, and Club will be standalone brands. The company also exports its products to UAE, Oman, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal, Nigeria, Myanmar, Algeria, Kenya and Ukraine contributing less than 10% of its turnover.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 1028.8 | 969.3 |
| PBILDT | 136.4 | 105.7 |
| PAT | 75.3 | 59.5 |
| Overall gearing (times) | 0.53 | 0.45 |
| Interest coverage (times) | 8.28 | 6.45 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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 | - | - | - | 225.00 | CARE A+; Stable |
| 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 | - | - | December, 2023 | 5.00 | CARE A+; Stable |

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | 225.00 | CARE A+; Stable | - | 1)CARE A+; Stable (06-Aug-19) | 1)CARE A+; Stable (25-Sep-18) | 1)CARE A; Stable (06-Sep-17) |
| 2. | Non-fund-based - ST-Bank Guarantees | ST | 0.50 | CARE A1+ | - | 1)CARE A1+ (06-Aug-19) | 1)CARE A1+ (25-Sep-18) | 1)CARE A1 (06-Sep-17) |
| 3. | Non-fund-based - ST-Credit Exposure Limit | ST | 0.67 | CARE A1+ | - | 1)CARE A1+ (06-Aug-19) | 1)CARE A1+ (25-Sep-18) | 1)CARE A1 (06-Sep-17) |
| 4. | Fund-based - LT-Term Loan | LT | 5.00 | CARE A+; Stable | - | 1)CARE A+; Stable (06-Aug-19) | 1)CARE A+; Stable (25-Sep-18) | 1)CARE A; Stable (06-Sep-17) |
| 5. | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (06-Aug-19) | 1)CARE A+; Stable (25-Sep-18) | 1)CARE A; Stable (06-Sep-17) |
| 6. | Commercial Paper | ST | 50.00 | CARE A1+ | - | 1)CARE A1+ (24-Oct-19) | - | - |

**Annexure 3: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Fund-based - LT-Term Loan | Simple |
| 3. | Non-fund-based - ST-Bank Guarantees | Simple |
| 4. | 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
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