Dollar Industries Limited

September 25, 2018

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	189.40 (reduced from Rs.205.89 crore)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	1.17	**CARE A1+ (A One Plus)**	Revised from CARE A1 (A One)
Total Bank Facilities	**190.57 (Rupees One Hundred Ninety Crore and Fifty Seven Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Dollar Industries Limited (DIL) reflects DIL's consistent improvement in the financial performance in FY18 and Q1FY19 through improved operating efficiency, backward integration measures, established brand position and focus on premium products. The ratings also take into account, DIL's tie-up with Pepe Jeans, Europe B.V. marking its foray into super premium segment, further strengthening DIL's business profile. The ratings are further supported by DIL's experienced promoters, established presence in the hosiery industry with strong brand image, robust financial position marked by healthy networth through fund infusion, satisfactory leverage and sound financial flexibility.

The ratings are, however, constrained by the working capital intensive nature of DIL's operations, volatility in the prices of raw materials and intense competition from organised and unorganised players.

The ability of the company to increase its scale of operation, while maintaining its profitability margin and further improvement in the capital structure shall be the key rating sensitivities.

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, 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.

In FY18, the company made preferential allotment of equity shares (including share premium) of Rs.107.5 crore (Quasi equity of Rs.52.77 crore outstanding as on March 31, 2017). Further, unsecured loans stood at Rs.42.5 crore as on March 31, 2018. The promoters have regularly infused funds to support growing scale of operation and cater to the working capital requirement.

Established brand presence in the intensely competitive industry

Focusing initially on the economy innerwear segment, the company has over the years broadened its product portfolio, which now 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.

Greater focus on the fast growing premium innerwear segment thus improving the profitability profile

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 FY18, the company introduced Crew neck front print t-shirts and kurti pants in Dollar Missy range while gym vests, round neck tees, tank tops, Henley tees and a variety of briefs and trunks in the Force NXT range.

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. Cumulatively, during FY16-FY18, the Company had spent Rs.270 crore on advertisements. The ad spends as a percentage of gross sales decreased from 10.7% in FY17 to 10.2% in FY18, however, continued to remain on the higher side compared to other industry players. DIL is also aggressively expanding its distribution network through large discounts / schemes (~7% of the total operating income in FY18) to more than 915 dealers and 95,000 retailers till date with presence in 26 States.

Improvement in financial performance in FY18 and Q1FY19

The financial performance of the company continued to witness improvement with the total operating income witnessing a y-o-y growth of approximately 11% in FY18. The operating margin continued to improve due to improved operating efficiency, benefits from backward integration, and focus on premium segment. GCA improved to Rs.74 crore vis-à-vis debt repayment obligation of Rs.21 crore during FY18.

As per the unaudited results for Q1FY19, income from operations remained on the same line compared with Q1FY18. The PBILDT margin and PAT margin of the company witnessed slight improvement in Q1FY19. DIL earned a PAT of Rs.13.81 crore on total income of Rs.243.81 crore in Q1FY19 vis-à-vis PAT of Rs.12.51 crore on total income of Rs.235.19 crore in Q1FY18.

Robust financial position marked by healthy networth, satisfactory leverage and sound financial flexibility

The debt equity ratio of the company remained stable at 0.17x as on March 31, 2018. The overall gearing ratio improved to 0.52x as on March 31, 2018 on account of increase in net worth due to equity infusion on preferential allotment basis and accretion of profits to reserves. The TDGCA of the company also improved from 2.89x as on March 31, 2017 to 2.48x as on March 31, 2018. High cash generation and fund infusion resulted in lower utilization of fund based limits from banks, which was 62% during 12 months ending July 2018.

Consequently, the overall gearing ratio is expected to improve further going forward on account of absence of any major capex requirement (except equity commitment of Rs.9 crore p.a. towards the JV with Pepe Jeans Europe B. V.), scheduled repayment of debt and repayment of unsecured loans coupled with accretion of profit to reserves. Moreover, DIL is continuously looking for opportunities to grow inorganically, and any such acquisition is not expected to significantly temper the capital structure as the management expects to maintain a peak gearing of 0.55x in the medium term.

Tie-up with a reputed International brand

The company has entered into a Joint Venture with Pepe Jeans, Europe B. V. with 50% partnership to enter the super-premium segment. The manufacturing activities has commenced revenue is expected from Q3FY19. The JV will primarily be engaged in sale and distribution of the licensed products viz., innerwear and loungewear which would include gymwear, sleepwear and track suits under the brand name Pepe Jeans London. These products will also be made available in Sri Lanka, Nepal, Bhutan and Bangladesh.

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 51% of the total cost of sales in FY18 vis-à-vis 49% of total cost of sales during FY17. The increase was primarily on account of increase in prices of cotton yarn in Q4FY18. 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 along with the installed 300 sewing machines near Tirupur 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.

Working capital intensiveness

The working capital cycle elongated from 166 days in FY17 to 183 days in FY18 primarily on the back of increase in inventory holding period which stood at 134 days in FY18 vis-à-vis 125 days in FY17. 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.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE’s Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[CARE’s methodology for manufacturing companies]

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 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”. The company also exports its premium products to UAE, Oman, Iraq, Jordan, Qatar, Sudan, Yemen, Kuwait, Bahrain, Nepal, Bhutan, Nigeria, Ghana, Algeria, Kenya, Iran, Ukraine, Togo and Latvia contributing less than 10% of its turnover.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	886.13	982.52
PBILDT	100.84	124.36
PAT	43.49	64.02
Overall gearing (times)	0.68	0.52
Interest coverage (times)	4.87	6.76

A: Audited

Status of non-cooperation with previous CRA: Nil
Any other information: Nil
Rating History (Last three years): Please refer Annexure-2
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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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	-	-	-	175.00	CARE A+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A1+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.67	CARE A1+
Term Loan-Long Term	-	-	August 2022	14.40	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	175.00	CARE A+; Stable	-	1)CARE A; Stable (06-Sep-17)	1)CARE A-; Stable (21-Dec-16)	1)CARE A- (07-Sep-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1+	-	1)CARE A1 (06-Sep-17)	1)CARE A2 (21-Dec-16)	1)CARE A2 (07-Sep-15)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.67	CARE A1+	-	1)CARE A1 (06-Sep-17)	1)CARE A2 (21-Dec-16)	1)CARE A2 (07-Sep-15)
4.	Term Loan-Long Term	LT	14.40	CARE A+; Stable	-	1)CARE A; Stable (06-Sep-17)	1)CARE A-; Stable (21-Dec-16)	1)CARE A- (07-Sep-15)

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