Dollar Industries Limited

October 24, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Commercial Paper (CP) Issue*	50.0 (Rupees Fifty crore only)	CARE A1+ (A One Plus)	Assigned

**carved out of the sanctioned working capital limits of the company*

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed commercial paper issue of Dollar Industries Limited (DIL) derives strength from the long track record of operations and experience of the promoters in the hosiery industry, established brand position and focus on premium products, diversified geographical presence albeit lower penetration in Southern India, comfortable liquidity position, satisfactory financial performance in FY19 (refers to the period April 01 to March 31) albeit moderation in Q1FY20, backward integration measures, comfortable capital structure and debt protection metrics. The rating is, however, constrained by the elongated working capital cycle, volatility in the prices of raw materials and intense competition from organised and unorganised players.

Rating sensitivities

Positive Factors

The ability of the company to increase its scale of operations, improve the PBILDT margin over 15% and improve the overall gearing ratio at 0.40x on a sustained basis at least for a period of 2 years might witness a positive change in the rating.

Negative Factors

The operating cycle of the company has deteriorated from 146 days in FY16 to 209 days in FY19. Any further deterioration in the operating cycle beyond 235 days might witness a negative impact in the rating.

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. The promoters infused fund by way of preferential allotment of equity shares (including share premium) of Rs.107.5 crore in FY18.

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, 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.

Greater focus on the 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

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

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.

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 has been in the range of 10%-11% over the last three years (FY17-FY19) which continued to remain on the higher side compared to 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 18 countries.

Satisfactory financial performance in FY19 albeit moderation in Q1FY20

The financial performance of the company continued to witness improvement with the total operating income growing at 11% in FY19 supported by concentrated brand building efforts and strong distribution network. The PBILDT margin was stable at 13.26% in FY19 vis-à-vis 13.44% in FY18. PAT margin, however, improved from 6.92% in FY18 to 7.32% in FY19 due to lower capital charge. The company earned adequate GCA of Rs.85.67 crore vis-à-vis debt repayment obligation of Rs.43.47 crore in FY19.

In Q1FY20, DIL has earned PBILDT and PAT of Rs.27.31 crore (Rs28.42 crore in Q1FY19) and Rs.12.90 crore (Rs.13.81 crore in Q1FY19) respectively on operating income of Rs.233.94 crore (Rs.243.81 crore in Q1FY19). The Interest coverage ratio declined from 8.23x in Q1FY19 to 6.55x in Q1FY20 due to increase in finance cost by 20.87% on y-o-y basis but remained comfortable.

Robust financial position marked by healthy networth, satisfactory leverage and debt protection metrics

The debt equity ratio of the company improved from 0.17x as on March 31, 2018 to 0.04x as on March 31, 2019. The overall gearing ratio was stable at 0.53x as on March 31, 2019. The overall gearing ratio is expected to improve going forward on account of absence of any major capex requirement (except investment in Pepe Jeans Innerfashion Pvt Ltd a Joint Venture company of DIL with Pepe Jeans Europe B.V), scheduled repayment of debt coupled with accretion of profit to reserves. The TDGCA of the company was satisfactory at 2.61x as on March 31, 2019.

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 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.4 crore in FY18-19 and Rs.3 crore in FY17-18 totalling to an investment of Rs.7 crore as on March 31, 2019. The JV is primarily engaged in sale and distribution of the licensed products viz., innerwear and loungewear including gymwear, 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.

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 42% of net sales in FY19, followed by Eastern region with a contribution of 27% and Western region contributing to 24% of net sales in FY19. Presence in Southern region is low with only 7% contribution to net sales in FY19.

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 46% of the total cost of sales in FY19 vis-à-vis 47% of total cost of sales during FY18. 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.

Working capital intensiveness and deterioration in operating cycle

The working capital cycle elongated from 185 days in FY18 to 209 days in FY19 primarily on the back of increase in inventory holding period which stood at 152 days in FY19 vis-à-vis 134 days in FY18. 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. Also, the average collection period deteriorated and stood at 109 days in FY19 vis-à-vis 98 days in FY18.

Industry characterised by intense competition

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. Significant competition exists from regional brands in the adult segment and kid's segment. The management intends to leverage the growing brand equity of Dollar to mitigate competition to an extent in these markets.

Liquidity: Superior

DIL has healthy liquidity profile marked by strong annual cash accruals of Rs.80-85 crore and free cash and cash equivalent of Rs.15 crore (as on June 30, 2019) against low debt repayment obligation. The working capital limit utilisation was comfortable at 70% during 12 months ending August 2019, providing liquidity cushion.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Factoring linkages in Rating
CARE's methodology - 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 products to UAE, Oman, Iraq, Jordan, Qatar, Yemen, Kuwait, Bahrain, Nepal, Myanmar, Nigeria, Ghana, Algeria, Kenya, Iran, Ukraine, Togo and Latvia contributing less than 10% of its turnover.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	925.55	1,028.76
PBILDT	124.36	136.40
PAT	64.02	75.25
Overall gearing (times)	0.52	0.53
Interest coverage (times)	6.76	8.28

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated June 26, 2015 on account of CRISIL's inability to carry out a rating surveillance in the absence of the requisite information from the entity.

Any other information: Not Available

Rating History (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
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	250.00	CARE A+; Stable	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (25-Sep-18)	1)CARE A; Stable (06-Sep-17)	1)CARE A-; Stable (21-Dec-16)
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)	1)CARE A2 (21-Dec-16)
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)	1)CARE A2 (21-Dec-16)
4.	Fund-based - LT-Term Loan	LT	6.65	CARE A+; Stable	1)CARE A+; Stable (06-Aug-19)	1)CARE A+; Stable (25-Sep-18)	1)CARE A; Stable (06-Sep-17)	1)CARE A-; Stable (21-Dec-16)
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)	1)CARE A-; Stable (21-Dec-16)
6.	Commercial Paper	ST	50.00	CARE A1+	-	-	-	-

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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