

Dollar Industries Limited

September 06, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	205.89 (enhanced from Rs.197.7 crore)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short-term Bank Facilities	1.17	CARE A1 (A One)	Revised from CARE A2 (A Two)
Total Bank Facilities	207.06 (Rupees Two Hundred Seven Crore Six 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) takes into account improvement in the financial performance of FY17 (refers to the period from April 01 to March 31) and Q1FY18, and fund infusion by the promoters leading to improvement in capital structure and liquidity position. The capital structure and liquidity position are expected to improve further with proposed preferential allotment of equity shares in Q3FY18. The ratings continue to draw comfort from DIL's experienced promoters and group support in the form of unsecured loans, long track record of operations, established presence in the hosiery industry with strong brand image, greater focus on the fast growing premium innerwear segment, and established selling and marketing arrangement. 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 the 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 in the form of unsecured loans

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 two decades, is administering the financial and marketing strategies of the company.

The promoters infused Rs.10 crore as unsecured loans in H2FY17 (Rs. 30 crore in H1FY17). The company shall make preferential allotment of equity shares in Q3FY18, whereby the outstanding unsecured loans of Rs.52.7 crore as on March 31, 2017 shall be replaced by equity shares along with fresh infusion of funds.

Established brand presence

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.

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

DIL entered the premium innerwear segment in late 2000, with its 'Bigboss' range of innerwear. Last year, 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. The company has announced a joint venture with Pepe Jeans Europe BV to manufacture and market super premium range of innerwear under the brand name 'Pepe Jeans London'.

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 FY15-FY17, the Company had spent Rs.230 crore on advertisements. DIL is also aggressively expanding its distribution network through large discounts / schemes (~7% of the total operating income in FY17) to more than 850 dealers and 80,000 retailers till date with presence in 26 States.

Improvement in financial performance in FY17 and Q1FY18

The financial performance of the company continued to witness improvement with the total operating income growing at CAGR of 11% during FY15-FY17 with y-o-y growth of approximately 9% in FY17. The operating margin improved from 9.01% in FY16 to 11.27% in FY17. GCA improved to Rs.56 crore vis-à-vis debt repayment obligation of Rs.35 crore during

FY17.

As per the unaudited results for Q1FY18, income from operations remained on the same line compared with Q1FY17. The PBILDT margin and PAT margin of the company however, improved in Q1FY18 from Q1FY17. DIL earned a PAT of Rs.12.51 crore on total income of Rs.239.57 crore in Q1FY18 vis-à-vis PAT of Rs.8.23 crore on total income of Rs.236.8 crore in Q1FY17.

Significant improvement in capital structure and liquidity position

The overall gearing ratio improved from 1.39x as on March 31, 2016 to 0.70x as on March 31, 2017 with repayment of loans and infusion of funds by promoters in FY17. The TDGCA of the company also improved from 5.55x as on March 31, 2016 to 2.89x as on March 31, 2017. The unsecured loans from promoter group of Rs.52.7 crore outstanding as on March 31, 2017 has been considered as part of networth as the same is proposed to be replaced by equity shares upon preferential allotment of shares in Q3FY18. Unsecured loan increased further to Rs.57.7 crore as on June 30, 2017. High cash generation and fund infusion resulted in lower utilisation of fund-based limits from banks, which was 62% during 12 months ending June 30, 2017 vis-à-vis 80% during corresponding period last year.

Consequently, the overall gearing ratio and liquidity position are expected to improve further going forward on account of lower utilization of working capital limits supported by absence of any major capex plan (except equity commitment of Rs.9 crore p.a. for 4 years towards the JV with Pepe Jeans Europe BV), and fund infusion through preferential allotment of equity shares.

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 48% of the total cost of sales in FY17 vis-à-vis 56% of total cost of sales during FY16. 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 near Tirupur which provides them with a negotiation power with the suppliers for the price of raw materials. The company has successfully setup the processing unit for bleaching and dyeing in Tamil Nadu and installed around 300 sewing machines on Pan India basis. The same helped in lowering its dependence on job work and earn higher operating margins during FY17.

Working capital intensiveness

The working capital cycle elongated from 146 days in FY16 to 166 days in FY17 primarily on the back of increase in inventory holding period which stood at 125 days in FY17 vis-à-vis 106 days in FY16. The introduction of new SKUs also led to increase in inventory in FY17.

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 Sri Dindayal Gupta, in 1973 through a proprietorship firm, Bhawani Textiles, and converted into a public limited company in 1993. Dollar Industries Limited (DIL) is primarily engaged in manufacturing innerwear for men, women and kids, which contributed approximately 80-85% percent 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 and Nepal contributing less than 10% of its turnover.

Brief Financials (Rs. Crore)	FY17 (A)	FY16 (A)
Total Operating Income	905.92	829.91
PBILDT	102.11	74.81
PAT	43.47	26.35
Overall gearing (times)	0.70	1.39
Interest coverage (times)	4.96	3.70

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: 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.

Analyst Contact

Name: Ms. Richa Bagaria

Tel: 033-4018 1653

Cell: +91 99034 70650

Email: richa.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	June 2019	30.89	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	175.00	CARE A; Stable	-	1)CARE A-; Stable (21-Dec-16)	1)CARE A- (07-Sep-15)	1)CARE BBB+ (26-Nov-14) 2)CARE BBB+ (30-Oct-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A1	-	1)CARE A2 (21-Dec-16)	1)CARE A2 (07-Sep-15)	1)CARE A3+ (26-Nov-14) 2)CARE A3+ (30-Oct-14)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.67	CARE A1	-	1)CARE A2 (21-Dec-16)	1)CARE A2 (07-Sep-15)	1)CARE A3+ (26-Nov-14) 2)CARE A3+ (30-Oct-14)
4.	Fund-based - LT-Term Loan	LT	27.88	CARE A; Stable	-	1)CARE A-; Stable (21-Dec-16)	1)CARE A- (07-Sep-15)	1)CARE BBB+ (26-Nov-14)
5.	Term Loan-Long Term	LT	3.01	CARE A; Stable	-	1)CARE A-; Stable (21-Dec-16)	1)CARE A- (07-Sep-15)	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com