

Press Release

GBTL Limited

January 08, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs.162.50 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.162.50 crore bank facilities of GBTL Limited (GBTL). The outlook is '**Stable**'.

GBTL Limited Incorporated in 2007, as a wholly owned subsidiary of Grasim Industries Limited, GBTL Limited (erstwhile, Grasim Bhiwani Textile Limited) is engaged in manufacturing of men's wear Polyester-Viscose Fabric. In July, 2017 Grasim Industries Limited divested 100 percent shareholding of GBTL Limited to Rajendra Synthetics LLP, partnership firm of the promoters of Donear Industries Limited under a close deal. GBTL markets its product under the brand name of 'Grasim' and 'Graviera' and also sells to other reputed brand in domestic and overseas market. It markets its product through agents and dealership network.

Analytical Approach

Acuité has considered consolidated business and financial risk profile of OCM Private Limited, GBTL Limited (erstwhile, Grasim Bhiwani Textile Limited) and Donear Industries Limited together referred to as the 'Donear Group' (DG). The consolidation is in view of common ownership, operational and financial linkages between these three companies and expectation of support from Donear Industries Limited to OCM and GBTL as and when required. There are inter-company transactions which are expected to increase over near term and use of common brand name of GRADO by OCM and GBTL. The surplus manufacturing facilities of recently acquired companies can be utilised by other group companies. Extent of Consolidation : Full

Key Rating Drivers

Strengths

- **Extensive experience of the promoters in the textile industry and strong brand presence**

DG was promoted by late Mr. Vishwanath Agarwal. At present it is managed by his son Mr. Rajendra Agarwal and Mr. Ajay Agarwal who has extensive experience of more than three decades in textile industry. The promoters have acquired OCM and GBTL in FY 17-2018 which will help the group in expanding its product portfolio ranging from luxury to mid-range segment.

Donear Group (DG) has established brand presence since 1987, whereas, OCM has been in textile business since 1924. DIL products are sold under the brand name of 'Donear Suitings & Shirts', 'Donear Royal Classico', 'Donear Soft and Smooth', among others. OCM products are sold under its own brands such as FERRARA, Siena, among others and GBTL products under 'Grasim' and 'Graviera'. OCM and GBTL's premium quality fabric will be sold under newly launched brand 'GRADO by OCM' and 'GRADO by Grasim'. DIL has wide spread distribution network with 115 agents, 629 wholesalers, and around 24000 over the counter (OTC) multi brands retail outlets. Donear also sells its in overseas market.

Acuité believes that the post-acquisition business synergies among the group, established brand presence and the wide spread distribution network will help the group to improve its scale of operation and strengthening its business risk profile over the medium term.

- **Diversified product portfolio and revenue stream**

DIL derived ~38 per cent of its revenue from business to business (B2B) segment, ~46 per cent from business to customers (B2C) segment and ~10 per cent from retail outlets of D'Cot in FY 18. DIL has exposure in overseas market as well whereby ~10 per cent of its total revenue is from export business and 90 per cent

from domestic market. The group has diversified product portfolio whereby each group company is engaged in different product and targeted customer segment. OCM is engaged in manufacturing of premium quality wool and tweed fabric and jacketing segment, GBTL is a premium poly viscose fabric manufacturer; whereas, DIL is engaged in cotton as well as poly viscose fabric for the mid income segment. Collectively, the group is catering to premium as well as mid income segment over a vast portfolio of products in domestic as well as foreign market.

Acuite believes that diversified product portfolio across various segments de-risk the company's operating performance.

Weaknesses

• Working capital intensive nature of business

The textile industry is working capital intensive in nature primarily due to high inventory holding days of 137 days in FY18 as compared to 121 days in FY17. The High inventory level arises on account of stocks lying at different processing stages starting from purchase of raw material, weaving, dying and processing till the finished stock. The company has to maintain wide variety of processed fabric which also adds to the inventory level. The Gross Current Assets (GCA) stood high at 241 days in FY18 as compared to 197 days in FY17 mainly due to high inventory days. The debtors stood moderate at 85 days in FY18 as compared to 72 days in FY17.

Acuite believes that management of working capital cycle will be a key determinant of the credit profile of the group.

• Moderate financial risk profile

The group has moderate financial risk profile marked by net worth of Rs.331.13 crore as on March 31, 2018 as compared to Rs.326.76 crore in as on March 31, 2017. The debt service coverage ratio (DSCR) stood moderate at 1.42 times in FY18 as compared to 0.95 times in FY17. The total debt of Rs.470.22 crore as on March 31, 2018 includes long term borrowing of Rs.72.28 crore and short term borrowing of Rs.397.94 crore. There has been increase in short term borrowing in FY 17-18 due funding requirement of GBTL Limited, initially being met through its then holding company (Grasim Industries Limited) till FY 16-17. The total outstanding liabilities to total tangible net worth increased to 1.92 times as on March 31, 2018 as compared to 1.56 times as on March 31, 2017 primarily due to increase in short term borrowing in FY 17-18. The interest coverage ratio declined to 2.21 times in FY18 as compared to 2.65 times in FY17 due to increase in interest cost outflow in FY17-18. The overall financial risk profile remains constrained due to higher short term borrowing and modest credit metrics with mainly debt-funded working capital funding in FY18. The credit metrics are expected to improve gradually with improvement in operational and financial performance out of business synergies with the group companies. The group has moderate capex plan over the medium term.

Acuite believes that higher than expected increase in working capital borrowing or debt funded capex will be critical to the credit risk profile of the group.

• High competition from other reputed brands

The group operates in a highly competitive industry marked by presence of several established brands like Raymonds, Siyaram, Digjam among others. Branded fabrics and garments business requires regular innovation in design to maintain its competitive position. Group's wide presence of more than three decades and acquisition of OCM and GBTL will support its business risk profile and stave off competition pressure to some extent. The group needs to continuously invest in brand promotion, product innovation to maintain its market position.

Outlook: Stable

Acuite believes that the Donear Group's business risk profile is expected remain 'Stable' on the back of established brand position of OCM and GBTL in the worsted and synthetics fabric apart from established position of Donear in suiting and shirting business and wide spread distribution network. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals, management of working capital cycle and debt protection metrics. Further, the outlook may be revised to 'Negative' in case of sharp decline in accruals, elongation of working capital cycle or deterioration in debt protection metrics.

About the Group

Amritsar-based, OCM Private Limited, incorporated in 1924, manufactures woolen and other wool blended worsted men's formal and leisure suits, jackets, shirts, trousers and others. OCM was originally part of S.K. Birla Group (Birla VXL) and at present 93.95 percent shareholding is with GR & SM Industries LLP, partnership firm of the promoters of Donear Industries Limited (DIL). OCM markets its product under the brand name of 'FERRARA', 'OCM- Gold Collection', 'OCM- Style' and 'Siena'. The manufacturing unit is located at Ambala (Haryana).

Donear Industries Limited Incorporated in 1987 as Maniyar India Limited, was acquired by the Mumbai based Agarwal family in 1989. The company was renamed to Donear Industries Limited (DIL) in 1993. DIL is engaged in the manufacturing of synthetic, cotton and blended fabrics mainly for suiting shirting and trousers. DIL has two Polyester Viscose (PV) fabric weaving units at Silvassa and one cotton fabric manufacturing unit at Surat. It further has one packing unit at Bangalore. DIL primarily caters to tier 2 cities to tier 6 towns under the brand name such as, Donear Suitings & Shirtings, Donear Royal Classico, Donear Soft and Smooth, among others. The company sells its products under B2B division and over the counter multi-brand retail outlets. The company derives around 90 percent of its revenues from the domestic market. The company is also engaged in fashion apparels and accessories sold under the brand name of D'COT Style wear established in 2007. At present, D'cot runs 260 retail outlets across India.

About the Rated Entity - Key Financials*

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1042.77	1076.24	1127.98
EBITDA	Rs. Cr.	72.00	71.80	81.41
PAT	Rs. Cr.	5.24	6.13	-5.61
EBITDA Margin	(%)	6.90	6.67	7.22
PAT Margin	(%)	0.50	0.57	-0.50
ROCE	(%)	6.02	6.25	13.63
Total Debt/Tangible Net Worth	Times	1.42	0.95	1.00
PBDIT/Interest	Times	2.21	2.65	2.18
Total Debt/PBDIT	Times	6.11	3.97	3.71
Gross Current Assets (Days)	Days	241	197	181

* Consolidated financials of OCM Private Limited, Donear Industries Limited and GBTL Limited.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit-I	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/ Stable
Cash Credit-II	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB/ Stable
Cash Credit-III*	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/ Stable
Cash Credit-IV**	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB/ Stable
Letter of Credit#	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+

*Sublimit of Working Capital Demand Loan Rs. 35.00 Crore.

** Sublimit of Working Capital Demand Loan Rs. 35.00 Crore and Letter of Credit Rs. 10.00 Crore.

Sublimit of Bank Guarantee Rs. 3.00 crore.

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About Acuité Ratings & Research:

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