

Press Release

GBTL Limited

February 19, 2020

Rating Reaffirmed

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 reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on 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

Incorporated in 1922, Amritsar-based OCM 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 'GRADO', 'FERRARA', 'OCM- Gold Collection', 'OCM- Style' and 'Siena'. The manufacturing unit is located at Ambala (Haryana).

Analytical Approach

Acuité has 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 one company can be utilised by other group companies. Extent of Consolidation: Full

About the Group

OCM Private Limited, incorporated in 1922, is the Amritsar-based company engaged in manufacturing 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 'GRADO', '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 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.

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 have extensive experience of more than three decades in textile industry. The promoters acquired OCM and GBTL in FY 17-2018 for 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 1922. DIL products are sold under the brand name of 'Donear Suitings & Shirtings', '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 is sold under newly launched brand 'GRADO by OCM' and 'GRADO by Grasim'.

DG has wide spread distribution network of ~350 dealers under Donear and ~250 under GBTL. OCM limited sells through retail network of ~1200 retailers. GBTL derives ~60 percent and Donear derives ~10 percent of its revenue from overseas sales.

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**

The group has diversified product portfolio whereby each group company is engaged in different product line and 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.

During FY2019, DIL derived ~44 per cent of its revenue from business to business (B2B) segment, ~39 per cent from business to customers (B2C) segment and ~10 per cent from retail outlets of D'Cot. 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.

Further, the group has diversified customer base whereby, top 10 customers contributes ~16.85 percent to the total revenue.

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

Weaknesses

- **Persistently high working capital cycle**

DG group's operations has remained highly working capital intensive in nature. The group has high inventory 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 inventory holding period stood at 150 days for FY2019 as compared to 137 days for FY2018 which was mainly comprising of work in progress inventory. The debtors stood moderate at 80 days as on March 31, 2019 as compared to 85 days as on March 31, 2018.

Acuité believes that reduction in 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.349.41 crore as on March 31, 2019 as compared to Rs.331.13 crore as on March 31, 2018. The Debt Service Coverage Ratio (DSCR) stood moderate at 1.49 times in FY19 as compared to 1.50 times in FY18. The total debt of Rs.494.49 crore as on March 31, 2019 includes long-term borrowing of Rs.60.83 crore, unsecured borrowing from related parties of Rs.57.25 crore and short-term borrowing of Rs.376.41 crore. The Total Outside Liabilities To Total Tangible Net Worth (TOL/TNW) deteriorated to 2.01 times as on March 31, 2019 as compared to 1.92 times as on March 31, 2018 primarily due to rise in short term borrowings. The interest coverage ratio declined to 1.98 times in FY19 as compared to 2.21 times in FY18 due to increase in interest cost burden in FY2019.

The overall financial risk profile remains constrained due to higher short-term borrowing and modest credit metrics with mainly debt-funded working capital funded operations. The credit metrics are expected to improve gradually over the medium term with improvement in operational and financial performance on

account of business synergies among the group companies. The group does not have significant debt funded capex plan over the medium term.

Going forward, Acuité believes that the group will maintain its financial risk profile in absence of debt funded capex plans and expansion of operations of newly acquired companies through optimal utilisation of installed capacity.

• **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 bring down competition pressure to some extent. The group needs to continuously invest in brand promotion, product innovation to maintain its market position.

Rating Sensitivities

- Elongation of working capital cycle beyond GCA of 280 days leading to higher reliance on working capital borrowing causing deteriorating its liquidity position.
- Improvement in profitability margins and financial risk profile.

Material Covenants

None

Liquidity position: Adequate

DG group maintains adequate liquidity position marked by net cash accruals of Rs.42.62 crore in FY2019 as against long-term debt obligations of Rs.12.31 crore over the same period. The group has a elongated working capital cycle marked by Gross Current Assets (GCA) of 250 days in FY2019 as compared to 241 days in FY2018. Further, the cash credit limit of the firm remained utilised at ~85 percent during the last six months ended December 2019. The current ratio of the group stood moderate at 1.39 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term backed by healthy net cash accruals and increasing revenues.

Outlook: Stable

Acuité believes that the 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, debt protection metrics and efficient management of working capital cycle. 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 Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1141.92	1,042.77
PAT	Rs. Cr.	17.49	5.24
PAT Margin	(%)	1.53	0.50
Total Debt/Tangible Net Worth	Times	1.42	1.42
PBDIT/Interest	Times	1.98	2.21

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Jan-2019	Cash credit-I	Long Term	30.00	ACUITE BBB/Stable (Assigned)
	Cash credit-II	Long Term	40.00	ACUITE BBB/Stable (Assigned)
	Cash credit-III*	Long Term	35.00	ACUITE BBB/Stable (Assigned)
	Cash credit-IV**	Long Term	35.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	12.50	ACUITE BBB/Stable (Assigned)
	Letter of credit#	Short Term	10.00	ACUITE A3+ (Assigned)

*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.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash credit-I	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB / Stable (Reaffirmed)
Cash credit-II	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB / Stable (Reaffirmed)
Cash credit-III*	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB / Stable (Reaffirmed)
Cash credit-IV**	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.85 (Revised from Rs.12.50 crore)	ACUITE BBB / Stable (Reaffirmed)
Letter of credit#	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Proposed facility	Not Applicable	Not Applicable	Not Applicable	3.65	ACUITE BBB / Stable (Reaffirmed)

*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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