

Press Release

GBTL Limited

March 05, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 162.50 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Negative (Reaffirmed; Outlook Revised from Stable to Negative)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite 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 revised from '**Stable**' to '**Negative**'.

The revision in outlook to 'Negative' from 'Stable' is on account of substantial decline in operating performance for 9MFY2021 (Provisional) primarily due outbreak of COVID-19 followed by lockdowns across the nation, thus restricting the movement of goods and people. This has impacted the manufacturing facilities and retail stores across the country. In 9M FY2021 (Provisional) Donear Group (DG) has reported consolidated revenue of ~Rs. 457.08 crore against Rs. 943.89 crore in the previous year. Operating margin stood at 2.77 percent for 9M FY2021 and 8.61 percent in the previous year. The Group reported a net loss of ~Rs. 29.19 crore for the same period. The revision in outlook also accounts for the adverse impact on liquidity profile. Bank limit utilization was ~70-80 percent for the six months ended Dec 2020. The Group has availed COVID loans to improve liquidity profile affected due to COVID lockdowns. The Group's liquidity to remain stretched on account of higher dependency bank borrowings to fund its increased working capital requirement and negative cash accruals in FY2021. Any further deterioration in liquidity profile will impinge a negative bias towards the rating.

About the Company

GBTL 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.

About the Group

OCM, 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 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).

DIL 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 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. As on March 2020, the company has network

of ~370 dealers and 215 franchisee based stores.

Analytical Approach

Acuite has consolidated business and financial risk profile of OCM Private Limited (OCM), GBTL Limited (erstwhile, Grasim Bhiwani Textile Limited) and Donear Industries Limited (DIL) 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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

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.

Acuite believes that the post-acquisition business synergies among the group, established brand presence and the wide spread distribution network will help the group to maintain 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 FY2020, DIL derived ~43 per cent of its revenue from business to business (B2B) segment, ~36 per cent from business to customers (B2C) segment and ~13 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.

For FY2021 due to the ongoing COVID 19 pandemic the Group's operating performance has been affected. The revenue has shown a significant de-growth as manufacturing facilities and retails stores were shut for the initial part of the year. However as the lockdown opens up and things normalize the Group's diversified product profile and revenue streams will help in a quicker recovery.

Acuite believes that diversified product portfolio across various segments helps to de-risk the Group's business risk profile.

- **Moderate financial risk profile**

The group has moderate financial risk profile marked by net worth of Rs. 366.23 crore as on March 31, 2020 as compared to Rs. 349.41 crore as on March 31, 2019. The Debt Service Coverage Ratio (DSCR) stood moderate at 1.38 times in FY2020 as compared to 1.49 times in FY2019. The total debt

of Rs. 416.16 crore as on March 31, 2020 includes long-term borrowing of Rs. 42.84 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) improved to 1.73 times as on March 31, 2020 as compared to 2.01 times as on March 31, 2019 primarily due to reduction in short term borrowings. The interest coverage ratio improved to 2.06 times in FY2020 as compared to 1.98 times in FY2019 due to decrease in interest cost burden in FY2020. The Group's financial risk profile is expected to be under pressure on account of decline in operating performance in FY2021. The deterioration in operating performance due to impact of COVID lockdown has adversely impacted the Group's profitability and consequently the coverage indicators. However, as the lockdown has gradually opened up signs of recovery are visible in the Group's operating performance. Besides adverse impact on account of COVID, overall financial risk profile also remains constrained due to higher short-term borrowing to fund the working capital requirements of the Group.

Acuite expects the Group to maintain a moderate financial risk profile despite increased pressure on account of COVID lockdowns as the trend of improvement in operating performance is expected to continue as things gradually normalize.

Weaknesses

- **Persistently high working capital cycle**

DG's operations have 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 Group has to maintain wide variety of processed fabric, which also adds to the inventory level. The inventory holding period stood at 148 days for FY2020 as compared to 150 days for FY2019 which was mainly comprising of work in progress inventory. The debtors stood moderate at 69 days for FY2020 as compared to 80 days as on March 31, 2019. Further, in FY2021 on account COVID lockdowns the Groups working capital financial cycle has further elongated. This is primarily due to pile up in inventory on account of lower sales for 6M FY2021. This is expected reduce as things normalize and operating performance improves.

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

- **Highly 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

- Improvement in scale of operations and profitability will be key rating sensitivity
- Group's ability to reduce elongation in working capital cycle will be key a monitorable.

Any Material Covenants

None

Liquidity Position: Stretched

The Group is expected to generate cash losses in FY2021. From FY2022 onwards net cash accruals are expected to be in the range of Rs. 17-35 crore against the repayment obligations in the range of Rs. 11.00 crore. Elongation in working capital cycle is expected to increase the Group's dependency on bank borrowings to fund its working capital requirement. Bank limit utilization was ~70-80 percent for the six months ended Dec 2020. The Group has availed COVID loans to improve liquidity profile affected due to COVID lockdowns. Acuite expects the Group's liquidity to remain stretched on account of higher dependency bank borrowings to fund its increased working capital requirement and negative cash accruals in FY2021.

Outlook: Negative

Acuite believes that the company will maintain a 'Negative' outlook over the medium term on account of significant decline in operating performance in FY2021 primarily as an impact of COVID pandemic. The rating may be downgraded in case of further deterioration in liquidity profile or in the absence of improvement in revenues and profitability or in case of further elongation in working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the Group registers higher-than-expected growth in revenues and profitability while maintaining its liquidity position.

About the Rated Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1093.94	1141.92
Profit after Tax (PAT)	Rs. Cr.	18.35	17.49
PAT Margin	(%)	1.68	1.53
Total Debt/Tangible Net Worth	Times	1.14	1.42
PBDIT/Interest	Times	2.06	1.98

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Feb-2020	Cash Credit	Long Term	30.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long Term	23.50	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	7.40	ACUITE BBB/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	16.60	ACUITE BBB/ Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
08-Jan-2019	Cash Credit	Long Term	30.00	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	40.00	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB/ Stable (Assigned)
	Cash Credit	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)

***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	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Term Loan	Not Available	Not Applicable	Not Available	7.40	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	16.60	ACUITE BBB/ Negative (Reaffirmed; Outlook Revised from 'Stable' to 'Negative')
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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