

## Press Release

### GBTL Limited

June 03, 2022



### Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	-	ACUITE A3   Downgraded
Bank Loan Ratings	152.50	ACUITE BBB-   Negative   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	162.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) from '**ACUITE BBB**' (read as **ACUITE Triple B**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **A three plus**) on the Rs.162.50 Cr bank facilities of GBTL Limited. The outlook is '**Negative**'.

### Reason for downgrade

The rating downgrade is on account of stretched working capital cycle driven by buildup of inventory and increasing reliance of the Group on bank borrowings to fund its incremental working capital requirements. The gross current days of the Group stood at 304 days as on March 31, 2022 (Prov.) primarily driven by inventory days of 193 days and debtor days of 88 days, respectively. The overall gearing of the Company rose to 1.41 times as on March 31, 2022 (Prov.) as against 1.11 times as on March 31, 2021. The rise in gearing levels is mainly on account of increased short term borrowings. The average bank limit utilization ranged between 75-85 percent for the twelve months ended March, 2022. The high bank limit utilization, elongated working capital cycle and increasing gearing levels, restrict the resource mobilization ability of the Group.

### About Company

GBTL Incorporated in 2007, as a wholly owned subsidiary of Grasim Industries Limited, Amritsar-based 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**

### **Extent of Consolidation**

- Full Consolidation

### **Rationale for Consolidation or Parent / Group / Govt. Support**

Acuité 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.

## **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.

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 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. The Group generated an operating income of Rs. 1112.57 Cr in FY2022 (Prov.) as against Rs. 661.32 Cr in FY2021 and Rs.1093.94 Cr in FY2020. The decline in revenues in FY2021 was mainly due to Covid-19 pandemic when manufacturing facilities and retail stores were shut for initial part of the year. Majority of the Group's operating income is contributed by DIL. DIL derives ~90 percent of its revenue from domestic market and balance ~10 percent from overseas. Acuite believes supported by diversified product portfolio and revenue steam, DG scale of operations and profitability would improve over the medium term.

### > **Moderate financial risk profile**

The group has moderate financial risk profile marked by net worth of Rs.389.14 Cr as on March 31, 2022 (Prov.) as compared to Rs.355.77 Cr as on March 31, 2021 and Rs.366.23 Cr as on March 31, 2020. The total debt stood at Rs.549.96 Cr as on March 31, 2022 (Prov.) as against Rs. 394.78 Cr as on March 31, 2021 as against Rs.416.16 Cr as on March 31, 2020. The total debt as on March 31, 2022 (Prov.) constituted long term borrowings of Rs. 55.85 Cr, unsecured loan from promoters or directors Rs. 28.69 Cr and short term borrowings of Rs. 465.42 Cr (O/s as last year Rs.300 Cr). The overall gearing stood at 1.41 times as on March 31, 2022 as against 1.11 times as on March 31,2021 and 1.14 times as on March 31,2020. The debt protection metrics are moderate marked by interest coverage ratio of 2.66 times in FY2022 (Prov.) as against 1.22 times in FY2021 and 2.06 times in FY2020. The DSCR improved to 1.52 times for FY2022 (Prov.) as against 0.99 times for FY2021 and 1.38 times for FY2020. The Debt on EBITDA multiple stood at 4.63 times as on March 31, 2022 (Prov.) as against 9.39 times as on March 31, 2021 and 4.32 times as on March 31, 2020.

Acuite expects the Group to maintain a moderate financial risk profile over the medium term in absence of any major debt funded capex plan.

### **Weaknesses**

#### > **Persistently high working capital cycle**

DG's operations have remained highly working capital intensive in nature. The Gross current asset (GCA) days stood at 304 days as on March 31, 2022 (Prov.) as against 373 days as on March 31,2021 and 241 days as on March 31,2020. The high GCA are driven by high inventory and debtor days. 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 193 days as on March 31,2022 (Prov.) as compared to 200 days as on March 31, 2021 and 148 days as on March 31, 2020. The debtors days stood at 88 days as on March 31, 2022 (Prov.) as against 110 days as on March 31,2021 and 69 days as on March 31, 2020. The average bank limit utilization remained high as it ranged between 75-85 percent for the twelve months ended March, 2022.

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

- > Group's ability to reduce elongation in working capital cycle will be key a monitorable.
- > Improvement in scale of operations and profitability while maintaining the capital structure.

### **Material Covenants**

None

### Liquidity Position: Stretched

DG has a stretched liquidity profile marked by elongated working capital cycle and high bank limit utilization. The Group's gross current asset days stood at 304 days as on March 31, 2022 (Prov.) driven by high inventory and debtor days. The elongated working capital cycle increases the Group's reliance on bank borrowings for working capital requirements. The average bank limit utilization remained high as it ranged between 75-85 percent for the twelve months ended March, 2022. The Group generate net cash accruals in the range of Rs.10-62 Cr for the period ended FY2021-FY2022 (Prov), while the maturing debt obligations stood in the range of Rs.11-25 Cr for the same period. The Group is expected to generate net cash accruals of Rs. 65-70 Cr for the period ended FY2023-FY2024 as against maturing debt obligations of Rs. 19-22 Cr for the same period. Acuite expects the Group's liquidity to remain stretched on account of higher dependency bank borrowings to fund its increased working capital requirement.

### Outlook: Negative

Acuite believes that the company will maintain a 'Negative' outlook over the medium term on account of significant elongation in working capital cycle and increased reliance on bank debt to meet the working capital requirements. The rating may be downgraded in case of further deterioration in liquidity profile or in case of further elongation in working capital cycle or in absence of improvement in revenues and profitability. Conversely, the outlook may be revised to 'Stable' in case the Group registers significant improvement in its working capital cycle and liquidity position.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	661.32	1093.94
PAT	Rs. Cr.	(12.26)	18.35
PAT Margin	(%)	(1.85)	1.68
Total Debt/Tangible Net Worth	Times	1.11	1.14
PBDIT/Interest	Times	1.22	2.06

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

Not Applicable

### Any Other Information

None

### Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

### Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Cash Credit	Long Term	23.50	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	7.40	ACUITE BBB   Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)

05 Mar 2021	Cash Credit	Long Term	30.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	16.60	ACUITE BBB   Stable (Reaffirmed)
19 Feb 2020	Cash Credit	Long Term	35.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB   Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE BBB   Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.65	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	8.85	ACUITE BBB   Stable (Reaffirmed)
08 Jan 2019	Term Loan	Long Term	12.50	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB   Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BBB   Stable (Assigned)
	Cash Credit	Long Term	40.00	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB-   Negative   Downgraded
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB-   Negative   Downgraded
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-   Negative   Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE BBB-   Negative   Downgraded
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	16.60	ACUITE BBB-   Negative   Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.40	ACUITE BBB-   Negative   Downgraded



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### About Acuité Ratings & Research

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