

Press Release

Dollar Industries Limited

January 04, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	1.33		ACUITE A1+ Assigned
Bank Ratings Loan	204.34	ACUITE AA Stable Assigned	
Total	205.67	-	-

*Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE AA**' (read as **ACUITE double A**) and the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.205.67 Cr bank facilities of Dollar Industries Limited (DIL). The outlook is '**Stable**'.

The rating on DIL takes cognizance of the strong business position of the company marked by its long track record and established brand equity in the hosiery innerwear industry supported by its vast distribution network and diversified geographical presence. Acuite also derives comfort from DIL's tie-up with a reputed international brand to mark its presence in the super premium segment, company's semi-integrated in-house manufacturing facility in Tirupur, robust financial risk profile and consistent increase in the company's internal cash accruals resulting in moderate utilization of fund based limits. However, the rating is constrained by the company's elongated working capital cycle and susceptibility to volatility in raw material prices.

About the Company

Established as a proprietorship concern, Bhawani Textiles in 1973 and then converted into a public limited company in 1993, Dollar Industries Limited (DIL) is primarily engaged in the manufacture of innerwear for men, women, kids along with thermals and lounge wear. The company markets its extensive product portfolio under Dollar Man, Dollar Woman, Dollar Junior, Dollar Always and Dollar Thermals. DIL has a strong distribution network of over 1,000 dealers and over 1 lakh retailers. The company also has a 4MW solar power plant generating 75 lakh power units annually and 4 windmills of 4.95MW generating around 70 lakh power units annually in Tamil Nadu for captive consumption. DIL has marked its presence across India and in 13 countries abroad. The company has emerged as one of the highest selling Indian innerwear brand in the UAE and the Middle East. The company is currently headed by Mr. Vinod Kumar Gupta, Mr. Binay Kumar Gupta, Mr. Krishan Kumar Gupta and Mr. Bajrang Kumar Gupta.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of DIL to arrive at the rating.

Key Rating Drivers

Strengths

Strong brand recall buoyed by experienced management and established presence

in the hosiery innerwear industry

Dollar Industries enjoys strong market position in the branded innerwear industry in India with a market share of around 15 per cent in the organised hosiery innerwear segment. Mr. Dindayal Gupta, the promoter and ex-chairman of the company has been in the textile industry since the past five decades. Started as Bhawani Textiles in 1973, Dollar began its export journey to the middle-east and other countries in 1995; further got listed in NSE in 2017 and in BSE in 2018. DIL's board includes Mr. Vinod Kumar Gupta, Mr. Binay Kumar Gupta, Mr. Krishan Kumar Gupta and Mr. Bajrang Kumar Gupta, who have long experience spanning around two decades. The third generation of promoters have also been inducted into the business. Acuité believes the company's established track record of operations, continuous efforts to further penetrate in the D2C segment, management's rich experience and expertise will further bolster the business, going forward.

Wide distribution network and strong brand promotion measures

DIL has a wide distribution network of over 1,000 dealers and over 100,000 retailers along with around 16,000 SKUs currently. Further, the company is also exporting its products to 13 countries, which contributed to about 8 per cent of revenue in H1FY22. In order to deepen its reach further, DIL has started serving retailers through newly appointed distributors under Project Lakshya. As on 30th Sept, 2021, 91 new distributors have been enrolled under this project. Also, to expand its reach further, DIL has launched its first Exclusive Brand Outlet (EBO) in Oct'2021 and further plans to launch other 8-10 EBOs in FY22.

The company has aggressively pursued various other marketing and promotional activities to improve its geographical reach and compete with existing players in the industry. In last 5 years, DIL has spent Rs.470 Cr behind advertising and promotional activities (nearly 8.7 per cent of total revenue in FY15-20). A significant part of these investments has been allocated towards mid-market brand "Bigboss" and women's legging brand "Missy"- endorsed by celebrities. Acuité believes that Dollar's established brand equity coupled with deeper penetration and consumer preference for affordable branded quality products are strong macro tailwinds for the company.

Tie-up with reputed international brand through JV- PEPE Jeans Innerfashion Private Limited

Dollar entered in a joint venture partnership with Pepe Jeans Europe on August, 2017. The Kolkata based JV is engaged in the sale and distribution of the licensed innerwear products under the brand Pepe Jeans London, targeting its reach to super premium segment across India, Sri Lanka, Bhutan, Nepal and Bangladesh. In Dec, 2021, the entire stake of Pepe Jeans Europe BV (Pepe) has been sold and vested in The G.O.A.T Brand Labs Pte. Ltd, in terms of the share purchase agreement as executed between G.O.A.T. and Pepe. Goat Brand acquires third-party lifestyle brands (D2C brands) to help them grow. The JV is currently headed by 4 directors, Mr. Krishan Kumar Gupta and Mr. Gaurav Gupta from DIL and two others directors from G.O.A.T. brands. DIL has invested Rs.10 Cr in the JV till March 31, 2021. Acuité believes DIL's ability to penetrate the super premium segment through the JV will remain a key monitorable as its still in the nascent stage of operations.

Robust financial risk profile

The company's robust financial position is marked by high net worth, low gearing and strong debt protection metrics. The net worth of the company stood high at Rs.536.25 Cr as on 31 March, 2021 as against Rs.459.51 Cr as on 31st March, 2020 due to accretion of reserves after dividend payouts. The gearing stood low at 0.23 times in FY2021 as against 0.46 times in FY2020. Further, strong debt protection is marked by interest coverage ratio (ICR) at 16.11 times and DSCR at 10.65 times in FY2021. The NCA/TD stood at 0.83 times in FY2021. Acuité believes that the strong financial position of the company will be sustained over the medium term backed by steady net cash accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital operation of the company improved albeit it continues to be intensive marked by GCA (Gross Current Assets) Days of 254 days in FY21 as compared to 270 days in the previous period. High GCA days are on account of high inventory period which stood at 136 days in FY21 as compared to 129 days in FY20. The company markets a wide range of products and accordingly has to maintain large quantity of inventory of each of its product category. 44 per cent of the total inventory as on 31st March, 2021 was finished goods. Further, the debtor period is relatively high at 119 days in FY21 yet improved from the previous period, due to better realisation in FY21. The company has started channel financing from mid Nov'21 in order to provide digitized portal for payments and reduce overall receivables. Acuité believes the working capital cycle will marginally improve but remain intensive over the medium term due to the inherent nature of such businesses.

Intense competition in the hosiery industry amidst recent yarn shortage

The hosiery industry is largely fragmented and is characterised by the presence of many players in the unorganised segment and is largely dominated by this segment. On the other hand, in the organised segment, the company faces competition from Lux Industries Limited and Rupa & Company Limited. In addition, increase in yarn export to Europe and the US since Oct'20, due to disruptions in their local manufacturing and in their sourcing from China, has led to a shortage of yarn in the domestic market, which makes the raw material for the company susceptible to price volatility.

ESG Factors Relevant for Rating

For the manufacturing industry, upholding strong business ethics is a key material issue along with management compensation. Issues such as independence, compensation and diversity in the board of directors are relevant to the industry. Audit committee functioning, financial audit and control, takeover defense mechanisms and shareholder rights are also important key issues. The manufacture of hosiery innerwear has a moderate environment impact; both water efficiency and pollution are key material issues for this industry. The level of GHG emissions, material efficiency and establishment of a green supply chain are also significant environmental factors for the industry. The social impact of the company is assessed through employee safety and product quality including the usage of restricted chemicals in the garments. Some other significant social issues include human rights and community support and development initiatives.

DIL has a 4MW captive solar power plant which helps in curbing the carbon emissions by 9000kgs/per day. Further, the company has invested in an effluent treatment plant with zero liquid discharge. The plant adheres to the norms of Pollution Control Board (PCB), comply with labour laws and various quality systems.

The board of Directors comprises of ten directors out of which five are Independent Directors including one female independent director as well, reflecting limited diversity. Three fourths of the Audit Committee Members are Independent Directors. All the members of the Nomination & Remuneration Committee Members are independent directors; there is no participation of promoter group in the nomination & remuneration committee. DIL has adequate policies on whistleblower protection programme, related party transactions and ethical business practices. DIL has high transparency in terms of disclosures related to board and management compensation and highlights the policies related to diversity and ethical business practices in its code of conduct. DIL has a dedicated CSR Committee chaired by the Managing Director, Mr. Vinod Kumar Gupta and it is actively involved in several philanthropic activities.

Rating Sensitivities

- Growth in scale of operations while sustaining operating profitability
- Stretch in working capital cycle

Material covenants

None

Liquidity Position: Strong

The company has a strong liquidity position marked by strong net cash accruals of Rs.102.75 Cr as against a long term debt obligation of only Rs.1.69 Cr during the same period. The current ratio stood strong at 2.46 times in FY21 as compared to 2.06 time in FY20. The company has unencumbered cash and bank balances of around Rs.6.97 Cr in FY21. The company has low dependence on external capital and hence the company did not avail any Covid loan or loan moratorium. The working capital limits remained moderately utilized at 73 percent for seven months ended October, 2021. Acuité believes that the liquidity position of the company will strengthen further over the medium term due to enhanced cash accruals and lower reliance on debt.

Outlook: Stable

Acuité believes that the outlook of the company will remain stable over the medium term backed by its established market position, strong brand recall, vast distribution network and diversification in its product mix. The outlook may be revised to 'Positive' if the company register a higher than expected growth in revenues while maintaining the operating profitability. Conversely, the outlook may be revised to 'Negative' in case of lower than anticipated revenues or further elongation in the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1036.96	969.32
PAT	Rs. Cr.	87.28	59.45
PAT Margin	(%)	8.42	6.13
Total Debt/Tangible Net Worth	Times	0.23	0.46
PBDIT/Interest	Times	16.11	6.74

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE A1+ Assigned

Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE AA Stable Assigned
Qatar National bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE AA Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE AA Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA Stable Assigned
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE AA Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.46	ACUITE AA Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.27	ACUITE AA Stable Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.15	ACUITE AA Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.46	ACUITE AA Stable Assigned

*Commercial Paper of Rs.50 Cr (sublimit of CC)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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