Press Release
Dollar Industries Limited
July 21, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	304.34	ACUITE AA- | Stable | Reaffirmed	-
Bank Loan Ratings	1.33	-	ACUITE A1+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	305.67	-	-

Erratum: This press release factors the change of the instruments rated (refer Annexure table). The review of rating was communicated through press release dated June 28, 2023. The PR of the detailed review assessment is available on the following link: https://connect.acuite.in/fcompany-details/DOLLAR%20INDUSTRIES%20LIMITED/28th_Jun_23 .

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE AA-' (read as ACUITE double A minus)** and short term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs.305.67 Cr bank facilities of Dollar Industries Limited (DIL). The outlook remains '**Stable**'

Rationale for reaffirmation

The rating reaffirmation is driven by the sharp and continued deterioration in profitability metrices of the company, as reflected by sequentially declining profit margins for the last six quarters through FY 2023. The EBIT margin has dropped to 2% in Q4-FY2023 from 15% in Q2-FY 2022. Acuite observes that the overall market (branded innerwear) has witnessed a growth of 8% in FY 2023, the company's sales have remained stagnant at around Rs.1350-1400 Cr. While the company has been able to sustain its market share in this segment, the sharp decline in margins are reflected due to the increased competitive pressures in the industry, and its inability to pass on the increase in raw material prices to the end-consumers.

The deterioration in profitability of the company further impacted the RoCE and RoE levels. The RoCE level declined to 9.77% in FY2023 as against 27.01% in FY2022 and the RoE level declined to 8.12% in FY2023 as against 21.68% in FY2022.

The rating, however, continues to derive comfort from the strong business risk profile of the company, established brand equity in the hosiery innerwear industry supported by its vast distribution network and diversified geographical presence. The rating also factors in experienced management, and strong financial risk profile of the company, despite the moderation in debt coverage indicators for FY2023.

About the Company

Dollar Industries Limited (DIL), initially originated as a proprietorship business called Bhawani Textiles in 1973 and later changed its legal status to a public limited company in 1993, specializes in the manufacture of thermals, loungewear, and innerwear for men, women, and children. The company markets its extensive product portfolio under Dollar Man, Dollar Woman, Dollar Junior, Dollar Always and Dollar Thermals. The company also has a 4 MW solar power plant generating 75 lakh power units annually and 4 windmills of 4.95 MW generating around 70 lakh power units annually in Tamil Nadu for captive consumption. DIL has marked its presence across India and in 15 countries abroad. The company has emerged as one of the highest selling Indian innerwear brand in the UAE and the Middle East.

Analytical Approach

Acuité 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. 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 (Managing Director) , Mr. Binay Kumar Gupta (Managing Director), Mr. Krishan Kumar Gupta (Whole-time director), Mr. Bajrang Kumar Gupta (Whole-time director) and Mr. Gopal Krishnan Sarankapani (Whole-time director), who have rich experience spanning around two decades in the innerwear industry. The third generation of promoters have also been inducted into the business. DIL has a strong distribution network of over 1,100 dealers and over 1.2 lakh retailers which it has developed over the years. The company over the years has also been able to create a strong brand recall for its products across various segments. Over the years, the company has been able to introduce various range of products to increase its reach to a wider section of the population.

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 of network and strong brand promotion measures

DIL has a wide distribution network of over 1,100 dealers and over 120,000 retailers along with around 16,000 SKUs currently. Further, the company is also exporting its products to 15 countries. In order to deepen its reach further, DIL has started serving retailers through newly appointed distributors under Project Lakshya. As on 31st March, 2023, 229 distributors have been enrolled under this project. Also, to expand its reach further, DIL has launched 14 Exclusive Brand Outlets (EBO) till 31st March 2023. In addition, the company is expanding its spinning capacity and integrated warehousing space which is operational from Apr'23. 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 FY2023, the company spent Rs.101 Cr towards a new TV commercial for its regular segment, Dollar Always, Lehar, by roping in Mr. Saif Ali Khan as brand ambassador.

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.

Acuité believes DIL's ability to penetrate the super premium segment through the JV will remain a key monitorable.

Strong financial risk profile

DIL's financial risk profile is strong marked by high net worth, low gearing and robust debt protection metrics. The net worth of the company stood at Rs.717 Cr as on March 31, 2023 as against Rs.673 Cr as on March 31, 2022. The company follows a conservative leverage policy reflected in its peak gearing of 0.23 times in FY2023 as against 0.31 times in FY2022. The total debt of Rs. 161.62 Cr as on March 31, 2023 which majorly comprises of working capital borrowing of Rs.161.47 Cr and the remaining portion of Rs.0.14 Cr are the term loan borrowings. The total outside liability to total net worth (TOL/TNW) stood at 0.50 times as on March 31, 2023 as against 0.65 times as on March 31, 2022. The decline in profitability margins had negative impact on the robust coverage ratios of the company, however the coverage ratios continued to remain healthy and the interest coverage ratio(ICR) stood at 7.26 times as on March 31, 2023 as against 21.51 times as on March 31, 2022. The debt service coverage ratio (DSCR) stood at 5.54 times as on March 31, 2023 as against 13.77 times as on March 31, 2022.

Acuité believes that the financial risk profile of the company will remain at similar levels over the medium term backed by steady net cash accruals.

Weaknesses

Sharp decline in profitability margins in FY2023

The operating margin of the company significantly deteriorated to 7.07 per cent in FY2023 from 16.11 per cent in FY2022. The PAT margin also declined to 4.18 per cent in FY2023 from 10.80 per cent in FY2022. The decline in margins is primarily on account of price-cut at dealer & distributor level and an increase in raw material prices which could not be passed on to the end-consumer, reflecting intense competitive pressures.

The deterioration in profitability of the company further impacted the RoCE and RoE levels. The RoCE level declined to 9.77% in FY2023 as against 27.01% in FY2022 and the RoE level declined to 8.12% in FY2023 as against 21.68% in FY2022.

Acuité believes that any further deterioration in the profitability of the company will remain a key rating sensitivity over the near to medium term.

Working capital intensive nature of operations

The operations of the company are of working capital intensive nature marked by Gross Current Assets(GCA) of 222 days as on March 31, 2023 as against 255 days as on March 31, 2022. High GCA days are on account of inventory days of 99 as on March 31, 2023 as against 153 as on March 31, 2022. The company markets a wide range of products and accordingly has to maintain large quantity of inventory of each of its product type apart from the inventory of raw material. The receivable days of the company stood at 112 days as on March 31, 2023 as against 109 days as on March 31, 2022.

Acuité believes the working capital cycle will remain at similar levels over the medium term due to the inherent nature of such businesses.

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 on the board of directors are relevant to the industry. Audit committee functioning, financial audit and control, takeover defence mechanisms, and shareholder rights are also important key issues. The manufacture of hosiery innerwear has a moderate environmental 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 use of restricted chemicals in the garments. Some other significant social issues include human rights, community support, and development initiatives.

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

The board of Directors comprises of ten directors out which five are Independent Directors including one female independent director as well, reflecting limited diversity. Three-fourths of the members of the Audit Committee Members are Independent Directors. All the members of the Nomination and Remuneration Committee Members are independent directors; there is no participation by promoter groups in the nomination and remuneration committee. DIL has adequate policies on the whistleblower protection programme, related party transactions, and ethical business practises. DIL has high transparency in terms of disclosures related to board and management compensation and highlights policies related to diversity and ethical business practises 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

- Sustenance of the scale of operations
- Any further deterioration in profitability margins
- Elongation in working capital cycle
- Any large and unexpected debt funded capital expenditure plan leading to weakening of financial risk profile

Material covenants

None

Liquidity Position

Strong

The company has a strong liquidity position marked by adequate net cash accruals of Rs.75.87 Cr in FY2023 as against negligible long term debt obligation during the same period. Going ahead, the net cash accrual of the company is estimated to be in the range of Rs.116.88 Cr to Rs.126.42 Cr against no debt repayment obligations during FY2024-25. The current ratio stood strong at 2.45 times in FY2023. The company has unencumbered cash and bank balances of around Rs. 0.16 Cr in FY2023.

Acuité believes that going forward, the company's liquidity position will remain strong on account of healthy cash accruals

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 registers a higher than expected growth in revenues while improving its profitability metrices. Conversely, the outlook may be revised to 'Negative' in case of further elongation in the working capital cycle, resulting in deterioration of financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1393.80	1350.32
PAT	Rs. Cr.	58.24	145.87
PAT Margin	(%)	4.18	10.80
Total Debt/Tangible Net Worth	Times	0.23	0.31
PBDIT/Interest	Times	7.26	21.51

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
• Entities In Manufacturing Sector:- 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2023	Cash Credit	Long Term	45.00	ACUITE AA- | Stable (Downgraded from ACUITE AA | Stable)
	Term Loan	Long Term	0.27	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Bank Guarantee	Short Term	1.33	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE AA- | Stable (Downgraded from ACUITE AA | Stable)
	Proposed Bank Facility	Long Term	100.00	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Term Loan	Long Term	3.46	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Term Loan	Long Term	0.15	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Cash Credit	Long Term	10.00	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Cash Credit	Long Term	50.00	ACUITE AA- | Stable (Downgraded from ACUITE AA | Stable)
	Cash Credit	Long Term	45.00	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Proposed Bank Facility	Long Term	0.46	ACUITE AA- (Downgraded from ACUITE AA | Stable)
	Cash Credit	Long Term	20.00	ACUITE AA- (Downgraded from ACUITE AA | Stable)
05 Aug 2022	Cash Credit	Long Term	10.00	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE AA | Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.33	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE AA | Stable (Reaffirmed)
	Term Loan	Long Term	0.27	ACUITE AA | Stable (Reaffirmed)
	Term Loan	Long Term	0.15	ACUITE AA | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	100.00	ACUITE AA | Stable (Assigned)
	Term Loan	Long Term	3.46	ACUITE AA | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.46	ACUITE AA | Stable (Reaffirmed)
	Term Loan	Long Term	3.46	ACUITE AA | Stable (Assigned)
	Term Loan	Long Term	0.27	ACUITE AA | Stable (Assigned)
		Short		

04 Jan 2022	Bank Guarantee	Term	1.33	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	45.00	ACUITE AA | Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE AA | Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE AA | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE AA | Stable (Assigned)
	Proposed Bank Facility	Long Term	0.46	ACUITE AA | Stable (Assigned)
	Term Loan	Long Term	0.15	ACUITE AA | Stable (Assigned)
	Cash Credit	Long Term	45.00	ACUITE AA | Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE AA | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.33	ACUITE A1+ | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE AA- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	32.00	ACUITE AA- | Stable | Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE AA- | Stable | Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE AA- | Stable | Reaffirmed
Qatar National bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE AA- | Stable | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE AA- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE AA- | Stable | Reaffirmed
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE AA- | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE AA- | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.46	ACUITE AA- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.27	ACUITE AA- | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.15	ACUITE AA- | Stable | Reaffirmed
								ACUITE

Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.46	AA- | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.