ANANDRATHI

India I Equities

Consumer
Company Update

Change in Estimates ☑ Target ☑ Reco ☑

16 February 2025

Dollar Industries

Rating: **Buy**
Target Price (12-mth): Rs.523
Share Price: Rs.404

Steady growth, Lakshya gaining traction; upgrading to a Buy

In line with ARe, Dollar Industries' Q3 sales grew 14.8% y/y. The South brought ~8% to 9M FY25 revenue; plans are to hike this to 13-15% over 2-3 years. At end-Q3, the company had 17 EBOs and plans to increase this to ~125 by FY26. Force NXT (premium segment) continues to do well, recording 13.8%/23.3% value/volume growth y/y. On stockpiling for Q4, inventory days were a high ~127 at Dec'24, expected to normalise to 95-97 by end-FY25. The cash-conversion cycle rose to 171 days (150 at end-FY24), projected to drop to ~145/135 in FY26/FY27, driven by the Lakshya expansion, which is deepening sales penetration and shortening the receivables cycle (by 25-30 days, medium term), improving cashflow, and working capital efficiency, which would help towards the company's net debt-free goal by FY27. Management re-affirmed its FY25 guidance (12-13% revenue growth, 11% EBITDA margin) and targets Rs20bn revenue in FY26 with a 13-14% EBITDA margin. The stock has fallen 25% in the last two months. We are confident about the company's prospects, supported by Lakshya's deeper penetration, expansion in the South, premiumisation, and modern trade and e-commerce's rising share in the revenue mix. We introduce FY27e and upgrade the stock to a Buy with a revised 12-month TP of Rs523, valuing it at 18x FY27e P/E (earlier Rs605, 23x FY26e P/E).

Uptick in Q3 revenue, margin expansion. ~8%/7% volume/value growth pushed up Q3 revenue 14.8% y/y to Rs3.8bn. The gross margin (incl. sub-contracting expenses) rose 172bps y/y to 35.6%, given a fillip by the favourable product mix. EBITDA shot up 27.6% y/y to Rs416m and the margin, 109bps y/y to 10.9%. PAT grew 12.3% y/y to Rs200m.

Raising Lakshya contribution via geographic expansion. Project Lakshya grew 31/30% y/y (value/volumes) in 9M FY25; its contribution to domestic sales rose to 30.7% (26.3% in FY24). The company is hiring a business head for this Project and plans to expand to more states, targeting ~70% contribution by FY26. The number of Lakshya distributors grew from 290 in Mar'24 to 315 in Dec'24, with recent expansion into MP, Himachal, and Jharkhand.

Valuation. We upgrade the stock to a Buy, at a 12-mth Rs523 TP, 18x FY27e P/E.
Risks: Volatile RM prices, cut-throat competition, changing customer preferences.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	13,938	15,723	17,767	20,112	22,928
Net profit (Rs m)	524	914	1,043	1,334	1,647
EPS (Rs)	9.2	16.1	18.4	23.5	29.0
P/E (x)	37.6	32.0	22.0	17.2	13.9
EV / EBITDA (x)	21.8	20.4	12.9	10.8	9.1
P/BV (x)	2.8	3.7	2.7	2.4	2.1
RoE (%)	7.6	12.3	12.7	14.6	15.9
RoCE (%)	7.4	10.5	10.7	12.3	13.6
Dividend yield (%)	0.7	0.7	1.0	1.0	1.0
Net debt / equity (x)	0.2	0.4	0.3	0.3	0.2

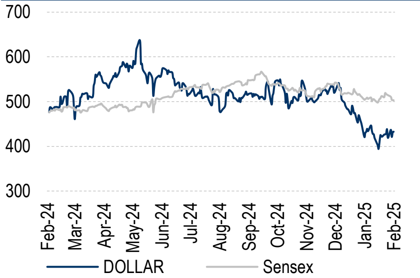
Source: Company, Anand Rathi Research

Key data	DOLLAR IN
52-week high / low	Rs.660 / 380
Sensex / Nifty	75,939 / 22,929
3-m average volume	$0.3m
Market cap	Rs.23bn / $264.1m
Shares outstanding	57m

Shareholding pattern (%)	Dec'24	Sept'24	Jun'24
Promoters	72.2	72.2	72.2
- *of which, Pledged*	-	-	-
Free float	27.8	27.8	27.8
- Foreign institutions	2.0	2.0	2.0
- Domestic institutions	1.0	0.7	0.8
- Public	24.8	25.1	25.0

Estimates revision (%)	FY25e	FY26e
Sales	0.0	(0.7)
EBITDA	0.0	(8.1)
EPS	(0.0)	(10.5)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	13,938	15,723	17,767	20,112	22,928
Growth (%)	*3.8*	*12.8*	*13.0*	*13.2*	*14.0*
Direct costs	7,578	7,250	8,173	9,251	10,547
SG&A	5,378	6,886	7,599	8,491	9,573
EBITDA	**982**	**1,586**	**1,995**	**2,369**	**2,808**
EBITDA margins (%)	7.0	10.1	11.2	11.8	12.2
- Depreciation	176	213	396	405	450
Other income	47	45	51	58	66
Interest expenses	142	185	237	221	205
PBT	711	1,234	1,413	1,801	2,218
Effective tax rates (%)	*20.1*	*24.9*	*25.3*	*25.2*	*25.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	524	914	1,043	1,334	1,647
Adjusted income	524	914	1,043	1,334	1,647
WANS	57	57	57	57	57
FDEPS (Rs)	9.2	16.1	18.4	23.5	29.0
FDEPS growth (%)	*(64.3)*	*74.2*	*14.1*	*27.9*	*23.5*
Gross margins (%)	*45.6*	*53.9*	*54.0*	*54.0*	*54.0*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	113	113	113	113	113
Net worth	7,072	7,811	8,592	9,665	11,051
Debt (incl. Pref.)	1,616	3,061	2,861	2,661	2,461
Minority interest	15	27	27	27	27
DTL / (Assets)*	137	151	151	151	151
Capital employed	**8,840**	**11,050**	**11,632**	**12,504**	**13,690**
Net tangible assets**	974	2,268	2,356	2,401	2,401
Net intangible assets	1	34	-	-	-
Goodwill	0	0	-	-	-
CWIP (tang. & intang.)	877	169	169	169	169
Investments (strategic)	16	-	-	-	-
Investments (financial)	1	1	1	1	1
Current assets (excl. cash)	8,851	10,970	11,696	12,799	14,591
Cash	14	22	138	223	49
Current liabilities	1,894	2,415	2,729	3,089	3,522
Working capital	6,956	8,555	8,967	9,710	11,069
Capital deployed	**8,840**	**11,050**	**11,632**	**12,504**	**13,690**
Contingent liabilities	-	-	-	-	-

** including lease liabilities, ** including right-to-use assets*

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT (adj. for int. inc. & exp.)	791	1,373	1,583	1,948	2,341
+ Non-cash items	241	281	396	405	450
Oper. prof. before WC	1,032	1,655	1,979	2,353	2,791
- Incr. / (decr.) in WC	(610)	1,647	412	743	1,359
Others incl. taxes	282	264	354	450	555
Operating cash-flow	1,360	(256)	1,214	1,160	877
- Capex (tang. + intang.)	549	817	450	450	450
Free cash-flow	811	(1,072)	764	710	427
Acquisitions					
- Div. (incl. buyback & taxes)	170	170	262	262	262
+ Equity raised	17	-	-	-	-
+ Debt raised	(443)	1,445	(200)	(200)	(200)
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	215	182	186	163	139
Net cash-flow	(1)	21	116	85	(174)

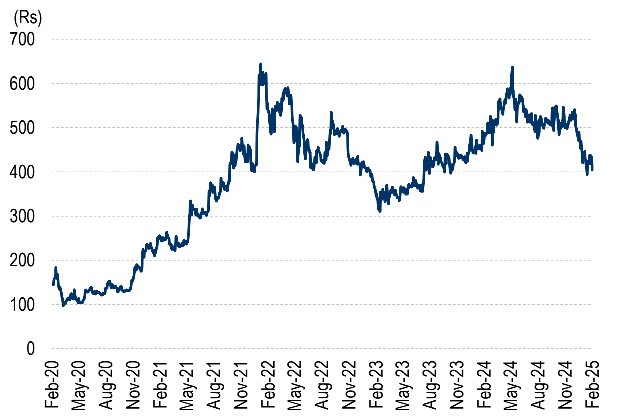
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	37.6	32.0	22.0	17.2	13.9
EV / EBITDA (x)	21.8	20.4	12.9	10.8	9.1
EV / Sales (x)	1.5	2.1	1.5	1.3	1.1
P/B (x)	2.8	3.7	2.7	2.4	2.1
RoE (%)	7.6	12.3	12.7	14.6	15.9
RoCE (%) - after tax	7.4	10.5	10.7	12.3	13.6
RoIC (%) - after tax	7.4	10.5	10.7	12.5	13.8
DPS (Rs)	3.0	3.0	4.0	4.0	4.0
Dividend yield (%)	0.7	0.7	1.0	1.0	1.0
Div. payout (%) - incl. DDT	38.4	18.6	21.8	17.0	13.8
Net debt / equity (x)	0.2	0.4	0.3	0.3	0.2
Receivables (days)	112	114	108	105	105
Inventory (days)	94	113	105	100	100
Payables (days)	36	42	42	42	42
CFO : PAT %	259.3	-28.0	116.4	86.9	53.2

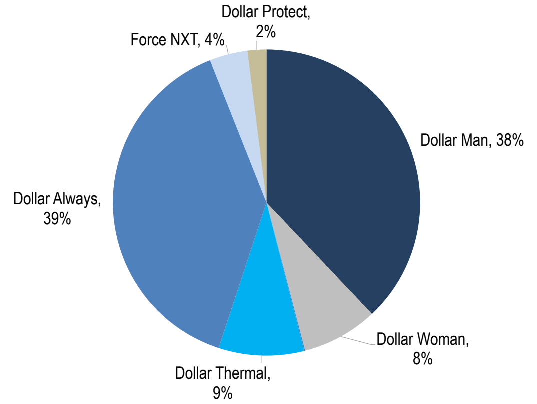
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Brand-wise 9M FY25 revenue break-up



Source: Company

Financial Highlights

Q3 consolidated sales grew 14.8% y/y to Rs3.8bn (volumes, 8.2% y/y). The gross margin (incl. sub-contracting expenses) expanded 172bps y/y to 35.6%. Employee/other expenses grew ~20%/17% y/y. EBITDA grew 27.6% y/y to Rs416m and the margin expanded 109bps y/y to 10.9%. Depreciation/interest expense/other income increased 53.1%/51%/40.6% y/y. PBT grew 19.5% y/y to Rs271m. The tax rate came at 26.4% (21.7% a year ago). PAT grew 12.3% y/y to Rs200m.

9M FY25 revenue grew 8.3% y/y to Rs11.6bn. The gross margin (incl. sub-contracting exp) came at 34.8%, up 189bps y/y. EBITDA rose 24.3% y/y to Rs1.3bn and the margin, 140bps y/y to 10.9%. PAT rose 8% y/y to Rs624m.

Fig 7 – Quarterly results

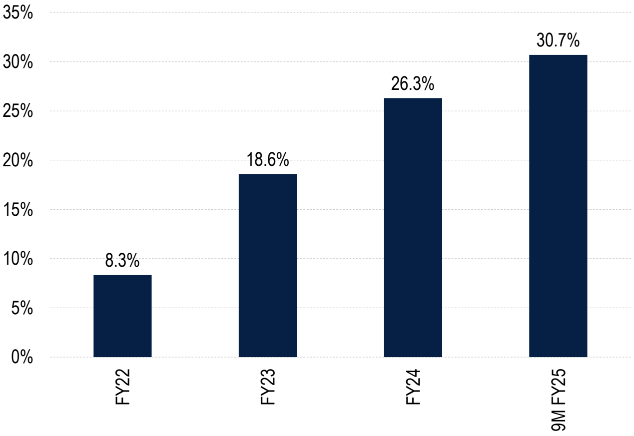
(Rs m)	Q3 FY25	Q3 FY24	% Y/Y	Q2 FY25	% Q/Q	9M FY25	9M FY24	% Y/Y
Sales	3,807	3,316	*14.8*	4,469	*(14.8)*	11,613	10,723	*8.3*
Gross margin (only CoGS), %	*57.1*	*58.9*	*-175bps*	*53.7*	*339bps*	*56.6*	*55.1*	*143bps*
Gross margin (incl. subcontracting expenses), %	*35.6*	*33.9*	*172bps*	*33.5*	*209bps*	*34.8*	*32.9*	*189bps*
Employee expenses	265	221	*20.0*	262	*1.4*	757	657	*15.3*
Other expenses	673	575	*17.1*	746	*(9.7)*	2,022	1,856	*8.9*
EBITDA	416	326	*27.6*	489	*(14.9)*	1,261	1,015	*24.3*
EBITDA margins (%)	*10.9*	*9.8*	*109bps*	*10.9*	*-2bps*	*10.9*	*9.5*	*140bps*
Depreciation	95	62	*53.1*	90	*5.0*	269	146	*83.8*
Interest	74	49	*51.0*	71	*3.0*	212	122	*73.4*
Other income	17	12	*40.6*	11	*50.7*	36	24	*47.1*
PBT	271	227	*19.5*	342	*(20.8)*	828	754	*9.8*
Tax	71	49	*45.3*	78	*(8.3)*	204	177	*15.7*
Tax rates (%)	26.4	21.7	*470bps*	22.8	*360bps*	24.7	23.4	*126bps*
PAT	200	178	*12.3*	264	*(24.5)*	624	578	*8.0*

Source: Company

Other highlights

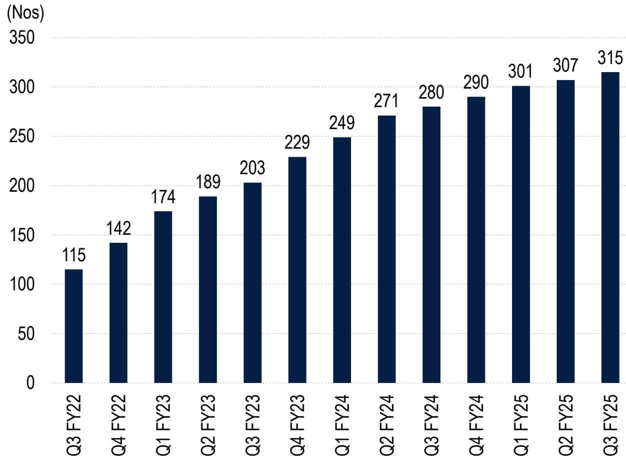
- **Brand mix**. For 9M FY25, Dollar Always led with 39% of sales, followed by Dollar Man (Bigg Boss) at 38%, Dollar Thermals (9%), Dollar Woman (8%), Force NXT (4%), Dollar Protect (2%) and Dollar Junior (0.1%). The ASP rose 7% y/y, backed by a favourable product-mix shift toward premium products (Force NXT's 13.8%/ 23.3% y/y value/volume growth in Q3). Dollar Rain Guard maintained a strong pace, revenue growing 90% y/y to Rs220m with a 23-24% EBITDA margin. Thermals grew 20.8% y/y in value, 19.5% y/y by volumes; athleisure brought 12-13% to sales, still below pre-COVID levels, though. Besides, the JV with Pepe Jeans saw strong growth, with ~Rs260m revenue in 9M FY25, more than doubling y/y, while EBITDA was Rs50m for the same.
- **Channel mix.** For 9M FY25, general trade brought 87% to sales, followed by e-commerce at 6%, exports at 4%, and modern trade at 3%. Modern trade and e-commerce grew well, with revenue rising 34.9% y/y in Q3 and 55.2% y/y in 9M FY25. The company is expanding in quick commerce, already on Instamart, Zepto and Flipkart Minutes, with Blinkit to be launched soon. As this channel began 5-6 months ago, sales are still to gain traction. The company aims to raise the proportion of revenue from modern trade to 8% by FY26.
- **Region-wise.** For 9M FY25, the North brought 47% to sales, followed by the East (24%), West (21%) and South (8%). The first is dominant, driven by a strong showing in Rajasthan and UP, while sales are balanced across other regions except for the South. In 9M FY25, the South's contribution was ~8%. To fortify operations, the company is focusing on expanding in the South, targeting 13-15% revenue contribution in the next 2-3 years. As part of this strategy, it has signed franchisee contracts and plans to add 15-20 EBOs in the South over the next two years.
- **Project Lakshaya** brought 30.7% to sales in 9M FY25 (up from 26.3% in FY24), with a target of ~70% by FY26. The number of Lakshya distributors rose from 290 in Mar'24 to 315 in Dec'24 with the recent expansion into MP (2-3 distributors added), Himachal (1) and Jharkhand (3-4). Lakshya and non-Lakshya EBITDA margins are similar, and working capital efficiency is expected to improve as non-Lakshya distributors' receivables days (111-112) are significantly higher than those of Lakshya distributors (75-77). A potential reduction of 25-30 days in debtor days will support cash-flow generation. Besides, a business head is being hired for Lakshya to accelerate the expansion of this project.
- **Working capital**. Stockpiling for Q4 (a seasonally busy quarter) lengthened inventory days to ~127 at end-Dec'24. Inventory days, though, are expected to return to normal (95-97) by end-FY25. The cash conversion cycle stretched to 171 days (vs. 150 in FY24) but is projected to drop to 145 in FY26 and 135 in FY27, driven by fewer debtor days with expansion of the Lakshya Project.
- **Guidance.** The company expects 12-13% revenue growth and 11% EBITDA margin in FY25, aiming at Rs20bn revenue in FY26 with 13-14% EBITDA margins. Lakshya's growing share will improve working capital and cash-flows, aiding its goal of becoming debt-free by FY27. Premiumisation, expansion in the South and the greater share of modern trade and e-commerce in the revenue mix would further bolster its market positioning.

Fig 8 – Rising Lakshya contribution to sales (%)



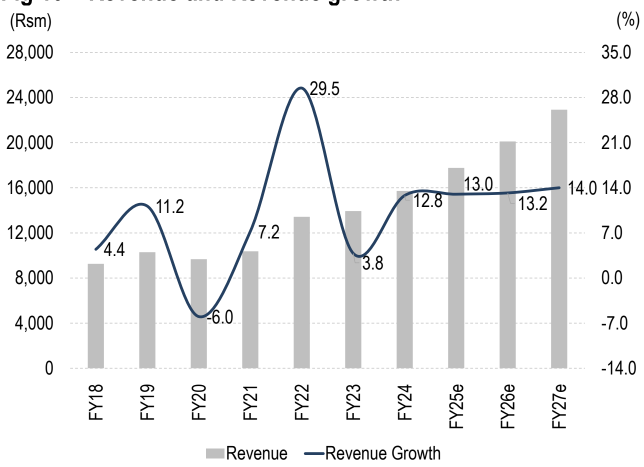
Source: Company, Anand Rathi Research

Fig 9 – Steady increase in distributors under Lakshya



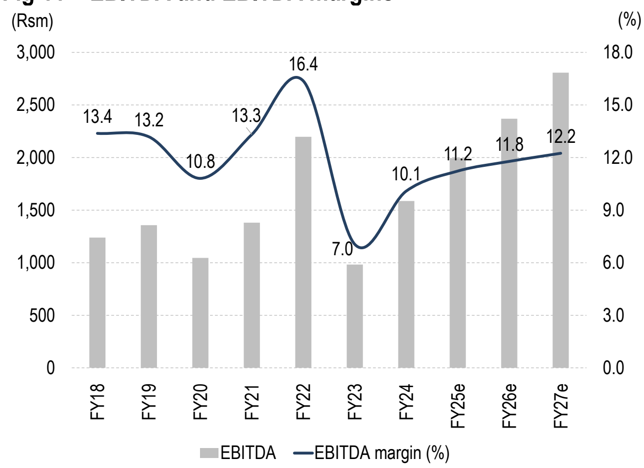
Source: Company, Anand Rathi Research

Fig 10 – Revenue and Revenue growth



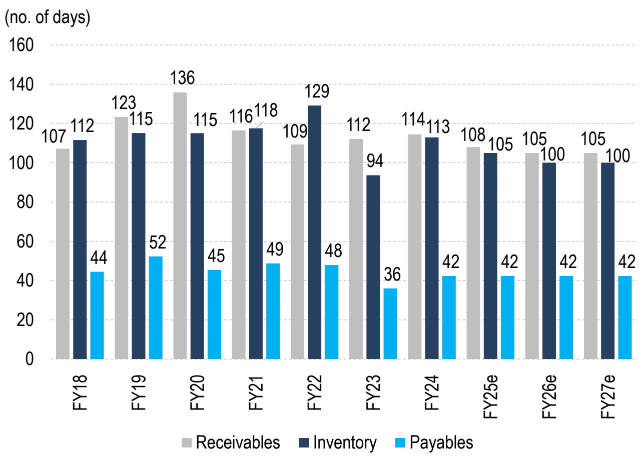
Source: Company, Anand Rathi Research

Fig 11 – EBITDA and EBITDA margins



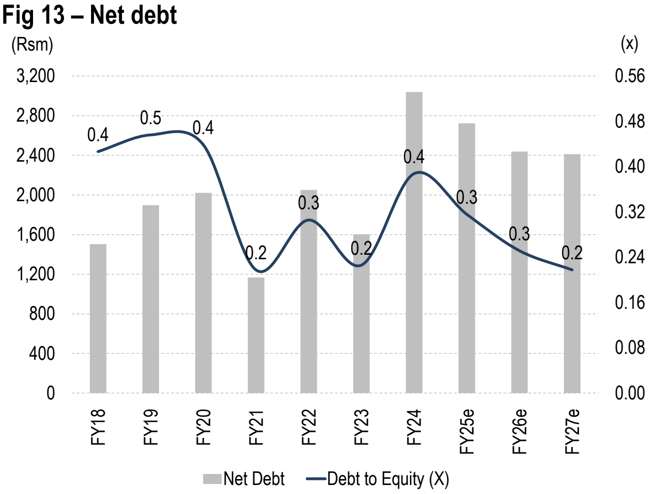
Source: Company, Anand Rathi Research

Fig 12 – Working-capital cycle



Source: Company, Anand Rathi Research

Fig 13 – Net debt



Source: Company, Anand Rathi Research

Valuation

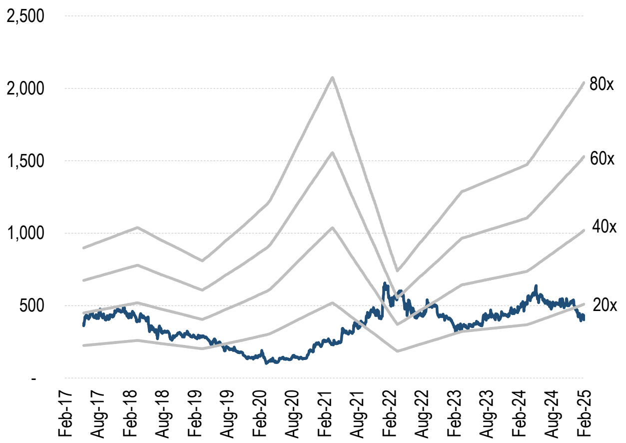
We introduce FY27e and upgrade our rating on the stock to a 'Buy', with a revised 12-mth TP of Rs523 (earlier Rs605), 18x FY27e P/E.

Fig 15 – Valuation parameters

	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	37.6	32.0	22.0	17.2	13.9
EV / EBITDA (x)	21.8	20.4	12.9	10.8	9.1
EV / Sales (x)	1.5	2.1	1.5	1.3	1.1
RoE (%)	7.6	12.3	12.7	14.6	15.9
RoCE (%)	7.4	10.5	10.7	12.3	13.6

Source: Company, Anand Rathi Research

Fig 16 – One-year forward P/E



Source: Company, Anand Rathi Research

Fig 17 – SD

Source: Company, Anand Rathi Research

Risks

- **Volatile raw-material prices.** Inability to pass on higher raw-material prices or delay in doing so could lead to crimped margins.
- **Changing technology, consumer behaviour.** The innerwear sub-category is subject to rapid shifts in consumer preferences and technology. The company's inability to respond in time to such changes would hamper its performance.
- **Keener competition.** The company operates in a cut-throat context against international and domestic brands. Standing out in such a crowd amid the challenging competitive context is crucial.

Appendix

Analyst Certification

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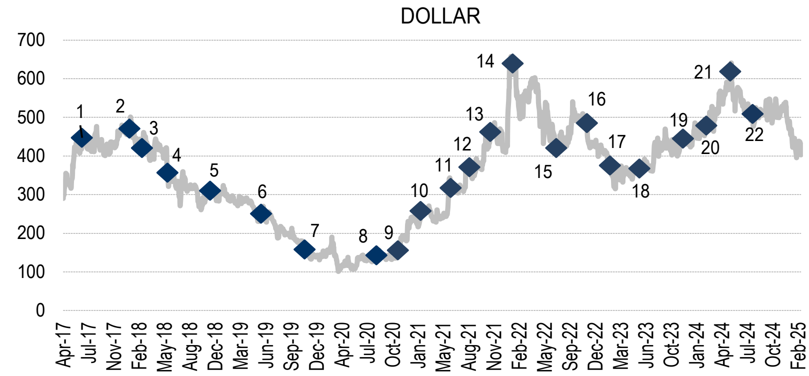
Important Disclosures on subject companies

Rating and Target Price History (as of 16 February 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
9	10-Nov-20	**Hold**	197	160
10	6-Feb-21	**Hold**	296	257
11	31-May-21	**Hold**	339	311
12	9-Aug-21	**Hold**	413	379
13	1-Nov-21	**Hold**	525	465
14	2-Feb-22	**Hold**	678	633
15	14-Jul-22	**Hold**	505	417
16	12-Nov-22	**Hold**	502	452
17	16-Feb-23	**Hold**	415	356
18	1-Jun-23	**Hold**	376	369
19	28-Nov-23	**Hold**	495	433
20	11-Feb-24	**Hold**	537	484
21	28-May-24	**Hold**	603	555
22	5-Sep-24	**Hold**	605	499

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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