

DOLLAR INDUSTRIES

The right fit

India Equity Research | Retail

We recently met Mr. Vinod Gupta, Managing Director, Dollar Industries. The company's *Bigboss* is one of the well-known brands in the domestic innerwear market catering to the economy, middle and premium segments. Fitness, quality and contemporariness have been Dollar's USP and it aims to further enrich product mix by expanding reach and focusing on the super premium segment. It is targeting 10-12% YoY sales growth aided by: (a) 1-2% price hike; and (b) sharpening focus on the super premium segment. 'NOT RATED'.

Vibrant product portfolio; unique value proposition boosts sales

Dollar caters to economy, premium and super-premium innerwear segments. While the economy range contributes 34% to revenue, premium & super premium contribute the balance. Moreover, the company boasts of a vibrant portfolio of sub-brands—*Dollar Big Boss Premium Innerwear, Missy, Champion, Force Go Wear, Ultra Thermals* and *Force NXT*. **Besides the USP of fitness, quality & contemporariness of products, Dollar offers higher incentives to distributors to drive sales.**

Robust ad spends to sustain

The company is one of the highest spenders (~10% of sales) on advertising among peers Page, Rupa and Lux (~4%, 8% and 6%, respectively). Management is planning to maintain advertisement spend run rate at 8-10% of revenue in future as well. Of the INR860mn expended in FY17, INR400mn was on TV, INR200mn on newspaper and balance on outdoor activities. Dollar ropes in celebrities to promote its brand—in 2010 Akshay Kumar was brand ambassador; from 2006-08 it was promoted by Salman Khan.

Outlook and valuations: Going strong; 'NOT RATED'

Dollar is focusing on altering its product mix in favour of the super premium segment—**launch of new brand FORCE NXT targeting the aspirational segment is a case in point— which is envisaged to boost sales.** Competition from other players is key monitorable. At CMP, the stock trades at P/E of 55.6x FY17 EPS. The stock is 'NOT RATED'.

Financials

Year to March	FY14	FY15	FY16	FY17
Revenues (INR mn)	6,865	7,241	8,217	8,973
Rev. growth (%)	18.5	5.5	13.5	9.2
EBITDA (INR mn)	417	559	657	926
Adjusted Profit (INR mn)	137	194	264	435
No. of Shares outstanding (mn)	8	8	8	11
Adjusted Diluted EPS (INR)	17.7	25.1	34.0	40.1
EPS growth (%)	22.8	41.7	35.5	17.8
Diluted P/E (x)	125.9	88.8	65.5	55.6
EV/EBITDA (x)	44.6	33.9	29.2	28.2
ROAE (%)	14.5	17.6	19.8	26.6

EDELWEISS RATINGS

Absolute Rating NOT RATED

MARKET DATA (R: NA.BO, B: DOLLAR IN)

CMP	: INR 2,230
Target Price	: NA
52-week range (INR)	: 2,470 / 1,314
Share in issue (mn)	: 11
M cap (INR bn/USD mn)	: 24/ 358
Avg. Daily Vol.NSE ('000)	: 42.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY16	Q3FY16
Promoters *	54.9	54.9	54.9
MF's, FI's & BK's	6.6	6.6	6.6
FII's	3.1	3.1	3.1
Others	35.4	35.4	35.4

* Promoters pledged shares : Nil
(% of share in issue)

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Interaction with senior management: Key takeaways

Q. What is the future growth expected by the company?

Dollar expects 10-12% YoY sales growth aided by 1-2% price growth. The surge will be driven by focusing on super premium segment. The company has recently launched super premium brand *FORCE NXT* targeting the aspirational class.

Chart 1: Revenue growth over FY12-17

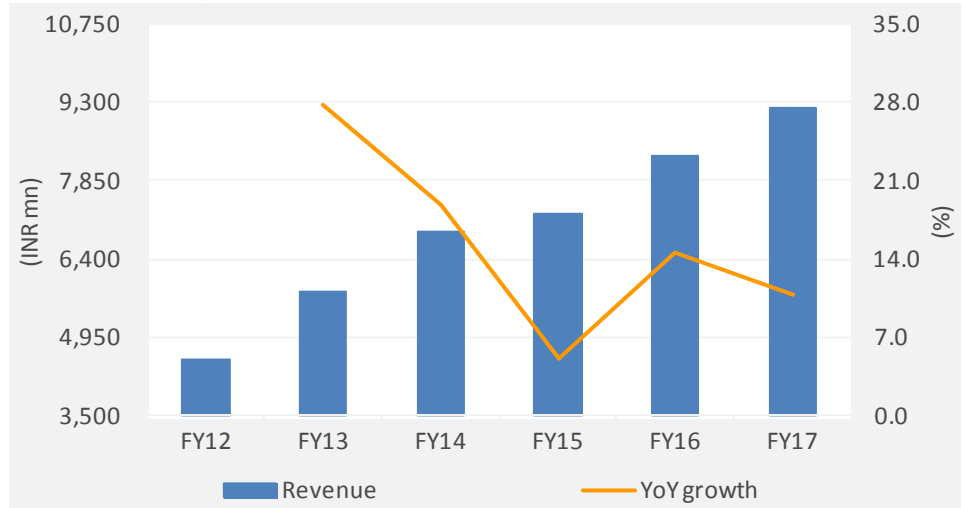


Table 1: Brand target audience

Brand	Launch year	Brand Tag line	Target audience
Bigboss	2008	Fit Hai Boss	Mass
Force NXT	2015	Go For NXT	Youth
Champions Kids	2010	NA	Parents/Kids
Force Go Wear	2009	NA	Youth
Missy	2014	Carry on Missy	Female 15-20 years
Ultra thermal	2010	NA	Family - Up market

Source: Edelweiss research

Fig. 1: Akshay Kumar—Bigboss' brand ambassador



Source: Edelweiss research

Q. What are the company's different products? Can you explain the strategy behind them?

Dollar caters to economy, premium and super-premium innerwear segments. While the economy range contributes 34% to revenue, premium and super premium contribute the balance. The company is targeting aspirational class via new brand *FORCE NXT* (super premium), which is also targeted by Jockey. The company has launched an array of sub-brands such as *Dollar Big Boss Premium Innerwear*, *Missy*, *Champion*, *Force Go Wear* and *Ultra Thermals*. Fitness, quality and contemporariness are Dollar's unique selling points. Moreover, it offers better incentives to distributors to drive sales.

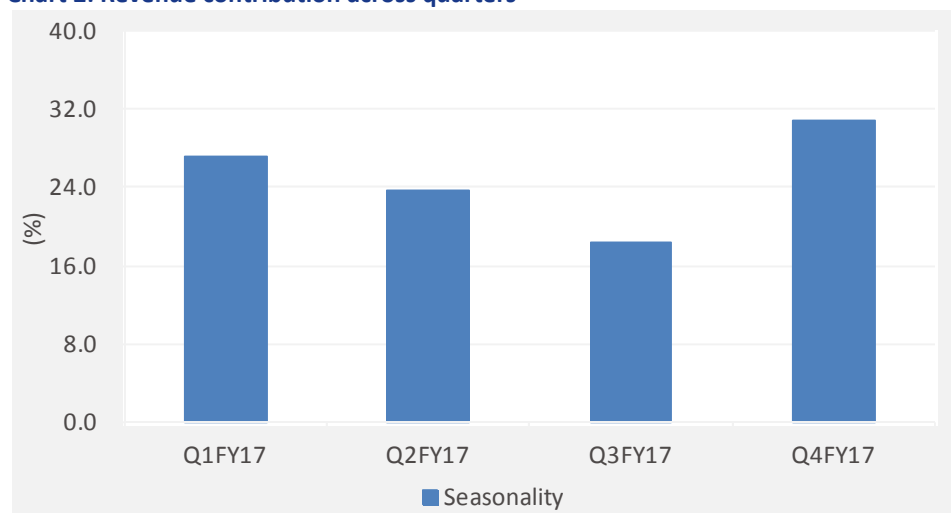
Table 2: Brand-wise segment-wise break up

Brand	Inner/knit wear	Segment	Revenue contribution
Bigboss	Innerwear	Premium	44.3
Force NXT	Innerwear	Super premium	1.5
Champions Kids	Outerwear/Innerwear	Premium	1.4
Force Go Wear	Outerwear/Innerwear	Premium	6.6
Missy	Outerwear/Innerwear	Premium	5.5
Ultra thermal	Innerwear	Premium	5.9

Source: Company, Edelweiss research

Q. Is there any seasonality impact on Dollar's revenue?

Q3 is the slowest quarter in terms of revenue growth due to the winter season. Because of a mild winter, Dollar's winter innerwear segment did not perform well in Q3FY17. Therefore, Q3 was one the slowest quarter. However, Q4 is the best quarter in terms of revenue growth.

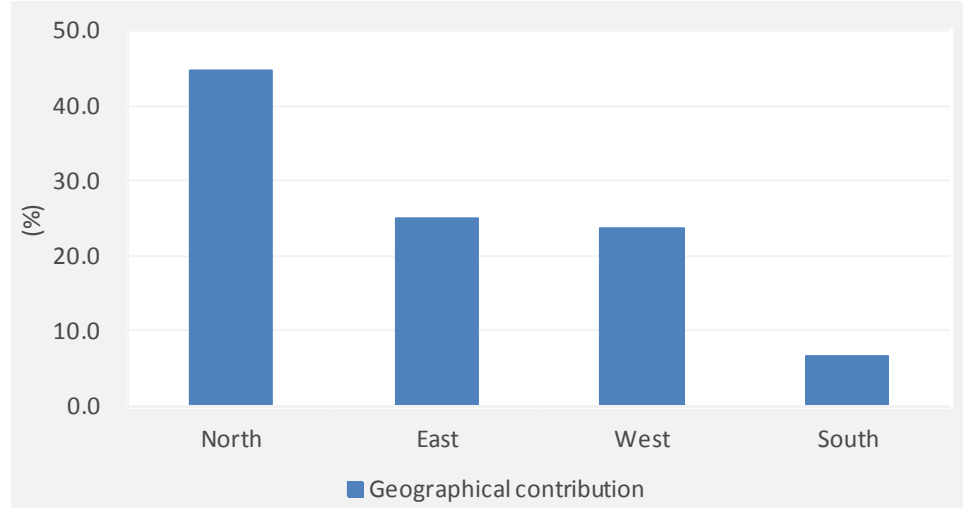
Chart 2: Revenue contribution across quarters

Source: Company, Edelweiss research

Q. Can we discuss the revenue split across geographies?

Dollar’s operations are spread across India, with the northern region contributing chunk of the revenue, followed by eastern, western and southern regions. While North contributes 44.6% to revenue, East and West contribute 25.1% and 23.6%, respectively; balance 6.8% comes from South.

Chart 3: Geographical contribution—North in pole position

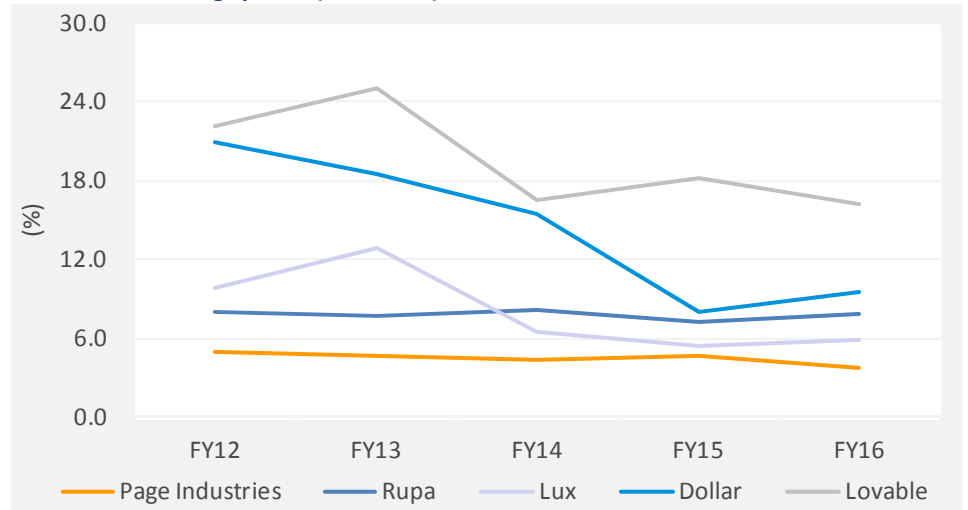


Source: Company, Edelweiss research

Q. What are the company’s ad spends?

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Chart 4: Advertising spends (% of sales)



Source: Edelweiss research

Q. Can you discuss utilisation and also proportion of in-house manufacturing?

While 30% production is in-house, balance 70% is outsourced. Dollar is running at full utilisation. However, in case of demand surge, the company can easily increase the outsourcing proportion.

Q. How many manufacturing facilities do you have?

The company has 4 manufacturing facilities—Tirupur, Kolkata, Delhi and Ludhiana.

Q. Can you talk about the company's distributors and reach?

Dollar is focusing on widening its reach. The number of distributors has risen from 550 in FY10 to 850 plus in FY17 (of which 80-90% are exclusive distributors). The company has increased the number of multi-brand outlets from 30,000 in FY11 to 80,000 plus in FY17, and intends to increase this further over the next 2 years.

Q. What is the capital expenditure required by the company?

The company has incurred INR1500mn capex over the past 7 years. No significant additional capex is envisaged going ahead.

Q. Can you discuss brand-wise EBITDA margin?

Brand	EBITDA margin (%)
Economy	8.3
Big Boss	10.5
FORCE NXT	17.7
Missy	14.5
Champion Kids	31.6
Thermals	16.9
FORCE Go	6.6

Source: Company, Edelweiss research

Q. What is the price differential compared to peers?

In case of premium brands, Dollar's MRP is at par with competitors. However, MRP is not the right metric. The company prices products for distributors. While distributors are given 8-10% discount, 30-35% discount is given to retailers. Price point for the consumer is controlled by distributor and retailers. Dollar cannot ensure price discipline at the consumer level. Therefore, at the distributor level, while the company is at 2% discount compared to peers in the premium segment, it is at 5% discount compared to peer in the super premium segment.

Company Description

Bhawani Textiles was renamed Dollar Industries in 2008. The company commenced operations with signature brand *Dollar* in men's vests and briefs. Currently, it has a wide range in men's, women's and kids' innerwear.

Dollar is one of the well-known brands in the domestic innerwear segment. It caters to the economy, middle and premium segments. From just being a men's innerwear company, it has expanded into women's innerwear, outerwear, kids' innerwear and other categories such as thermals. It has a wide distribution and retail network in India—more than 850 distributors and more than 80,000 retailers.

Key Risks

Volatile raw material prices.

Cut-throat competition.

Muted consumer sentiment.

Financial Statements

Income statement		(INR mn)			
Year to March	FY14	FY15	FY16	FY17	
Net revenues	6,865	7,241	8,217	8,973	
Cost of materials	3,656	3,773	3,574	3,916	
Gross profit	3,209	3,468	4,643	5,057	
Employee expenses	49	73	100	215	
Advertisement & sales costs	451	495	727	860	
S G & A expenses	2,291	2,340	3,158	3,056	
Total operating expenses	2,791	2,908	3,985	4,131	
EBITDA	417	559	657	926	
Depreciation & amortization	88	114	137	148	
EBIT	329	446	520	778	
Less: Interest Expense	156	202	194	197	
Add: Other income	34	65	83	86	
Profit before tax	206	308	409	667	
Less: Provision for Tax	69	113	145	233	
Reported Profit	137	194	264	435	
Adjusted Profit	137	194	264	435	
No. of Shares outstanding (mn)	8	8	8	11	
Adjusted Basic EPS	17.7	25.1	34.0	40.1	
No. of Dil. shares outstanding (mn)	8	8	8	11	
Adjusted Diluted EPS	17.7	25.1	34.0	40.1	
Adjusted Cash EPS	29.1	39.8	51.8	53.7	
Dividend per share (DPS)	1.7	-	1.8	6.0	
Dividend Payout Ratio (%)	8.5	-	4.4	12.5	

Common size metrics- as % of net revenues

Year to March	FY14	FY15	FY16	FY17
Cost of materials	53.3	52.1	43.5	43.6
Employee expenses	0.7	1.0	1.2	2.4
S G & A expenses	33.4	32.3	38.4	34.1
Total operating expenses	40.7	40.2	48.5	46.0
Depreciation and Amortization	1.3	1.6	1.7	1.6
Interest expenditure	2.3	2.8	2.4	2.2
EBITDA margin	6.1	7.7	8.0	10.3
EBIT margin	4.8	6.2	6.3	8.7
Net profit margins	2.0	2.7	3.2	4.8

Growth metrics

Year to March	FY14	FY15	FY16	FY17
Revenues	18.5	5.5	13.5	9.2
EBITDA	(1.2)	34.1	17.5	40.8
PBT	24.2	49.4	32.9	63.2
Adjusted Profit	22.8	41.7	35.5	64.9
EPS	22.8	41.7	35.5	17.8

Balance sheet		(INR mn)			
As on 31st March	FY14	FY15	FY16	FY17	
Share capital	77	77	77	108	
Reserves & surplus	934	1,126	1,377	1,701	
Shareholders funds	1,012	1,204	1,455	1,809	
Long term borrowings	390	538	553	661	
Short term borrowings	1,026	1,266	1,501	1,389	
Total Borrowings	1,416	1,804	2,053	2,050	
Long Term Liabilities & Provisions	78	40	58	92	
Deferred Tax Liability (net)	29	45	41	23	
Sources of funds	2,535	3,093	3,608	3,975	
Gross Block	873	1,336	1,454	1,512	
Net Block	504	854	837	747	
Capital work in progress	253	4	6	0	
Intangible assets	0	0	0	1	
Total Fixed Assets	756	857	843	749	
Non current investments	0	-	0	3	
Cash and cash equivalents	100	91	104	97	
Inventories	1,067	1,211	2,084	2,049	
Sundry debtors	1,414	1,852	1,932	2,265	
Loans & advances	128	200	199	150	
Other Current Assets	5	5	9	5	
Total current assets (ex cash)	2,614	3,268	4,224	4,470	
Trade payable	624	785	1,018	934	
Other Current Liabilities & Short Term	312	339	545	409	
Total current liabilities & provisions	936	1,123	1,563	1,343	
Net current assets (ex cash)	1,678	2,145	2,660	3,126	
Uses of funds	2,535	3,093	3,608	3,975	
Book value per share	131	155	188	167	

Retail

Profitability & liquidity ratios

Year to March	FY14	FY15	FY16	FY17
Return on Average Equity (ROAE) (%)	14.5	17.6	19.8	26.6
Pre-tax Return on Cap. Emp. (ROCE) (%)	15.0	18.8	18.5	23.5
Inventory days	115	110	168	193
Debtors days	67	82	84	85
Payable days	56	68	92	91
Cash Conversion Cycle	126	124	160	187
Current Ratio	2.9	3.0	2.8	3.4
Gross Debt/EBITDA	3	3	3	2
Gross Debt/Equity	1.4	1.5	1.4	1.1
Adjusted Debt/Equity	1.4	1.5	1.4	1.1
Interest Coverage Ratio	2.1	2.2	2.7	4.0

Operating ratios

Year to March	FY14	FY15	FY16	FY17
Total asset turnover	2.7	2.6	2.5	2.4
Fixed asset turnover	13.3	10.7	9.7	11.3
Equity turnover	7.2	6.5	6.2	5.5

Valuation parameters

Year to March	FY14	FY15	FY16	FY17
Adjusted Diluted EPS (INR)	17.7	25.1	34.0	40.1
Y-o-Y growth (%)	22.8	41.7	35.5	17.8
Adjusted Cash EPS (INR)	29.1	39.8	51.8	53.7
Dil. Price to Earnings Ratio (P/E) (x)	125.9	88.8	65.5	55.6
Price to Book Ratio (P/B) (x)	17.1	14.3	11.9	13.4
Enterprise Value / Sales (x)	2.7	2.6	2.3	2.9
Enterprise Value / EBITDA (x)	44.6	33.9	29.2	28.2
Dividend Yield (%)	0.1	-	0.1	0.3

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Coverage group(s) of stocks by primary analyst(s): Retail

Aditya Birla Fashion and Retail Ltd, Future Retail, Jubilant Foodworks, Shoppers Stop, Titan Company, Wonderla Holidays

Recent Research

Date	Company	Title	Price (INR)	Recos
17-Jul-17	Jubilant FoodWorks	New CEO begins with a bang; <i>Result Update</i>	1,273	Hold
07-Jul-17	Future Lifestyle Fashions	Two to tango; <i>Initiating Coverage</i>	310	Buy
06-Jul-17	Retail	Strong recovery in SSG; <i>Quarterly Result Preview</i>		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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