

Dollar Industries (DOLLAR IN)

SC Net: Industry Level Growth And Rising Margins

Consumer - Textiles

28 Jun 2017

Not Rated

Contacts: Vinod Kumar Gupta
Managing Director & CEO

Visit Rationale: Sector Coverage

Basic Share Information

Market cap	Rs22.65b / US\$0.35b
Daily volume (3mth)	US\$1.31m
Shares outstanding	10.84m
Free float	45%
Net debt-to-equity	101%
1 yr high	Rs2,173
1 yr low	Rs1,380
Foreign Hldg.	0%
Visit Date	19 Jun 17

What Is The Business Story For This Stock?

Dollar Industries (Dollar) says it will achieve Rs20bn sales by FY3/24, a sales CAGR of 12% over the period, but it expects margin improvement in the near term. Dollar manufactures and sells apparel in the innerwear and outerwear categories and is focused more in the men's segment. Dollar's largest major brand (of six), *Bigboss*, contributed 44% of FY3/17 revenues. Management hopes to focus more in the 'super-premium' category, *Force NXT*, in future, which contributed just 2% to FY3/17 revenues. Other brands include *Dollar Ultra Thermals* (5% revenue share), *Force Go Wear* (7%), *Missy* (6%) which is premium women's wear and *Champion* (2%) in the children's segment. The company has a few more brands categorized in an 'Economy' segment which contributed 34% to FY3/17 revenue. Over the five years to FY3/17 the company achieved a 15% revenue CAGR, while in FY3/17 revenues rose 9% YoY to reach Rs8.9bn.

Dollar's EBITDA margin was 10% in FY3/17. Management expects the OPM to improve due to (i) a smaller pricing gap vis-à-vis its competitors than in FY3/17. The price differential below its competitors was 3% in FY3/17, which it is now 2% and Dollar expects to lower it to 1% during FY3/18; (ii) lower spending on promoting its brands as a percentage of revenue by keeping the absolute spend the same, but on higher sales.

Dollar trades at a FY3/17 trailing PER of 50.8x, compared with Lux Industries' (LUX IN) 41.4x and Rupa & Co's (RUPA IN) 52.5x.

How Does The Value Chain Look?

Dollar is a backward-integrated hosiery company with manufacturing facilities at Tirupur, Kolkata, Delhi and Ludhiana. These facilities have the capabilities of yarn spinning, knitting, processing and cutting. The company manufactures 35–40% of its products in-house while the rest is outsourced. The management has indicated that the company will be shifting towards an asset-light structure which would reduce its CAPEX requirements. On the distribution side, the management says that excluding large districts, there is only one distributor per district. Dollar sells its products to its network of more than 850 distributors across India. The company's products have a presence in over 80,000 multi-brand outlets across India. Dollar also sells its products online through its own portal.

Segment	Market Share	Fundamentals	Major Clients	Major Suppliers	Competitors
Hosiery	15% of India's organized branded market	Strong	Dollar sells to 850 distributors across India	The company manufactures 35%-40% of its products in-house while the rest is outsourced	Amul Innerwear, Dixcy Scott, Lux Ind. (LUX IN), Rupa & Co. (RUPA IN)

Source: Company

Who Currently Owns This Stock?

The founder held 54.85% stake in the company as at 31st March 2017. As per mutual fund May 2017 filings on Bloomberg, no institution held more than 2% of the shares at that date.

How Does It Fit Into Our SCNet Index?

Since Dollar has only been listed since April 2017, there is no SCNet Index information on the shares at this stage.

	Significant Shareholdings
Founder	54.85%
Management	NA
Employees	NA
Industry	NA

Source: Company



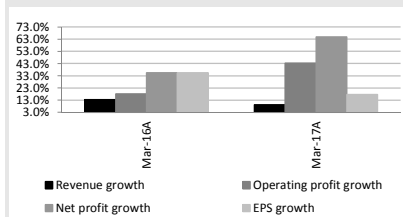
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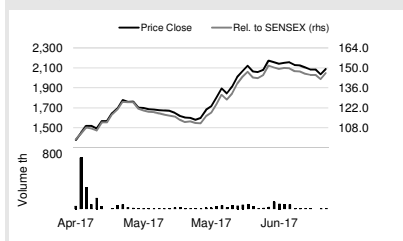


Earnings Trends



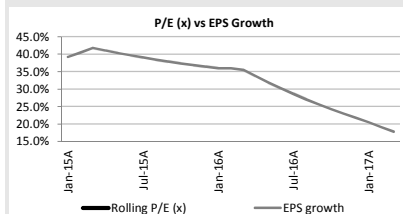
Source: Company data, Bloomberg

Price / Volume



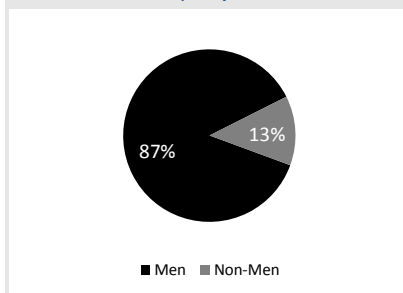
Source: Bloomberg

Valuation



Source: Company data, Bloomberg

Income Breakdown, FY3/17



Source: Company data

Key Investment Metrics

Revenue Growth

Low 5-yr avg High

Dollar had revenue growth of 9% YoY in FY3/17 while the five year average was 15% YoY. The management expects a 12% revenue CAGR over the next seven years to reach Rs20bn by FY3/24.

Profit Margins

Low 5-yr avg High

The company's EBITDA margin for FY3/17 stood at 10%, which was higher than the five year average of 8%.

Shareholder Returns

Low 5-yr avg High

Dollar had an ROE of 26.6% in FY3/17, significantly higher than the five year average of 18.4%. The company announced a dividend of Rs5 per share for FY3/17.

Balance Sheet Risks

High 5-yr avg Low

The company's debt-to-equity ratio was 1.13x in FY3/17 which was lower than the five year average of 1.43x. Dollar's FY3/17 debt-to-equity ratio is higher than its peers (Rupa was 0.18x and Lux was 0.76x in FY3/17).

Barriers to Entry

Low Medium High

The barriers to entry in this industry are low.

International Exposure/Breakdown

High Medium Low

In FY3/17, the company earned 9% of its revenue from outside India, with the Gulf region its largest external market. Management expects its international exposure to increase over time.

FX Exposure

High Medium Low

The company had foreign exchange earnings of Rs0.6bn and expenses of R0.1bn in FY3/16.

Corporate Governance

Low Medium High

Six out of eleven directors on the company's board are independent while two out of three directors on the audit committee and all the members on the remuneration committee are independent.

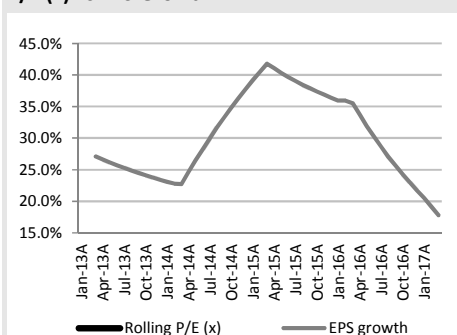
Company Snapshot and Industry Context

Dollar was formed in 1973 as Bhawani Textiles. The company manufactures and sells apparel in the inner- and outer-wear categories, predominantly in the men's segment. The company has manufacturing facilities at Tirupur, Kolkata, Delhi and Ludhiana. The company has six major brands, of which *Dollar Big Boss* is the largest. Other than the six major brands, the company has a few other brands which are categorized in an 'Economy' segment. The company has a strong presence in North India while it is relatively weak in South India. The products are also sold outside India, with a major presence in the Gulf region.

	Mar-13A	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Trend
Total turnover (Rsm)	5,795	6,889	7,241	8,217	8,973	
Operating profit (Rsm)	352.9	362.2	510.1	602.7	864.1	
Pre-tax profit (Rsm)	165.8	205.9	307.8	409.0	667.4	
Net income to ord equity (Rsm)	111.7	137.2	194.5	263.5	434.7	
Net profit growth	27.1%	22.8%	41.7%	35.5%	64.9%	
P/E (x)	144.8	117.9	83.2	61.4	52.1	
P/B (x)	18.26	16.00	13.44	11.12	12.52	
ROE	13.4%	14.5%	17.6%	19.8%	26.6%	
Dividend yield	0.1%	0.1%	0.0%	0.1%	0.2%	
EPS (Rs)	14.43	17.71	25.11	34.03	40.09	

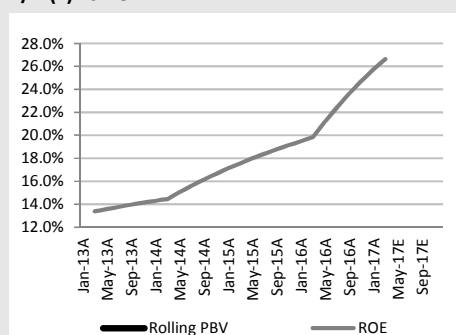
Source: Bloomberg

P/E (x) vs EPS Growth



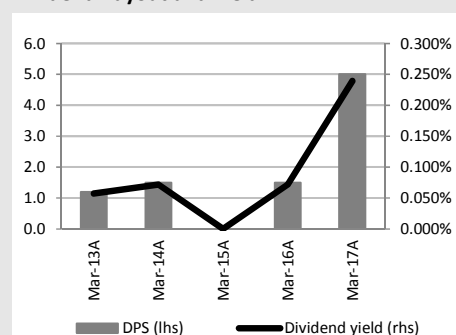
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P/B (x) vs ROE



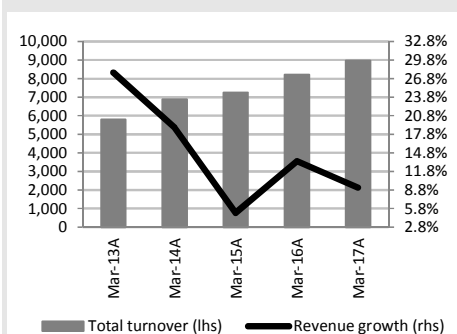
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Dividend Payout and Yield



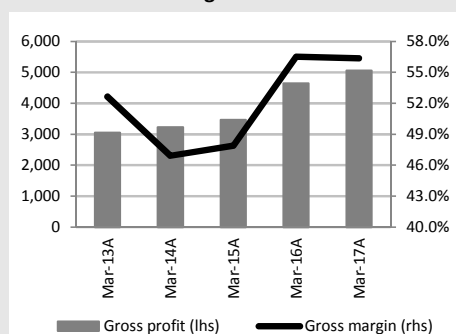
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Turnover and Growth



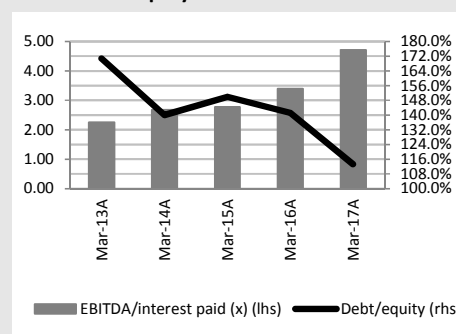
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Gross Profit and Margin



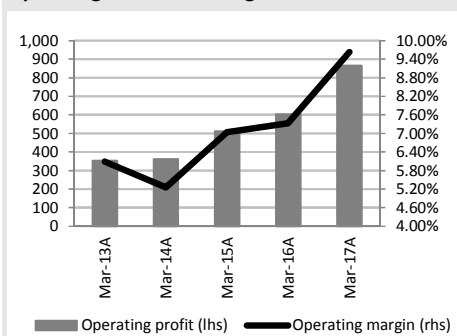
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Net Debt To Equity and Interest Cover



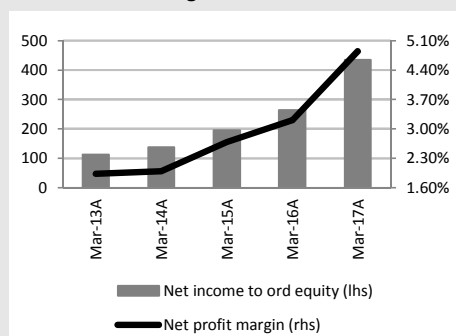
Source: Bloomberg

Operating Profit and Margin



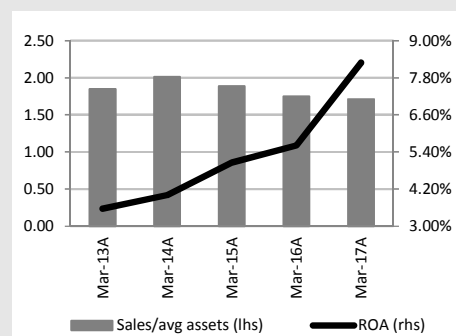
Source: Bloomberg

Net Profit and Margin



Source: Bloomberg

ROA and Asset Turnover



Source: Bloomberg

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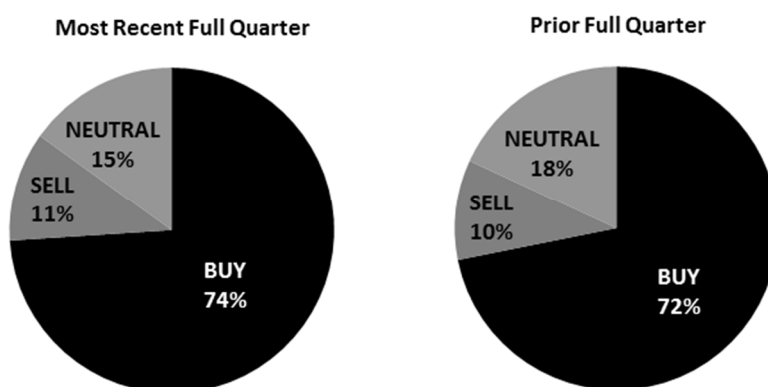
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