Dollar Industries Ltd

Transformational Growth

Ruchitaa Maheshwari
022 4225 4872
ruchita.maheshwari@arihantcapital.com

Arihant Capital Markets Ltd

ArihantCapital
Generating Wealth

Initiating Coverage
06th September 2021

Dollar Industries Ltd

Transformational Growth

CMP: INR 367

Rating: BUY

Target Price: INR 569

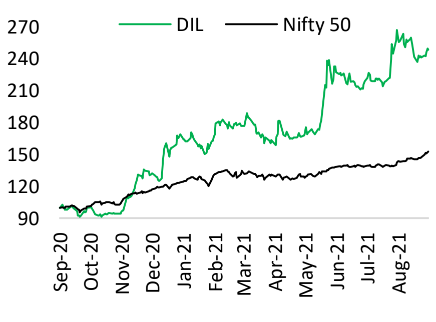
Stock Info	
BSE	541403
NSE	DOLLAR
Bloomberg	DOLLAR:IN
Reuters	DOLL.NS
Sector	Textile
Face Value (INR)	2
Equity Capital (INR cr)	11.34
Mkt Cap (INR cr)	2,081
52w H/L (INR)	408 / 127
Avg Yearly Vol (in 000')	229

Shareholding Pattern %
(As on June, 2021)

Promoters	72.9
DII	3.4
FII	0.0
Public & Others	23.7

Stock Performance (%)	3m	6m	12m
DIL	7	40	148
NIFTY	10	14	53

DIL Price Chart



Ruchitaa Maheshwari
ruchita.maheshwari@arihantcapital.com
022 4225 4872

Balasubramanian A

Dollar Industries or DIL, over the years has transformed itself from mass market brand (86% in FY07) to a house of brands focusing mainly on mid-market and premium segment which as on FY21 contributed 43% and 24% respectively. We believe that the company is riding on key pillars to drive growth; A) Increasing penetration in its existing mass and mid market brands like 'Dollar' and 'Big Boss', B) Expanding its women's product portfolio brand under 'Missy', C) Customer preference for leisure wear and active wear, which would drive athleisure's share, given its affordable price points, D) Scaling up of premium & super premium segment under Pepe Jeans JV, E) Streamlining its Working Capital under Project Lakshya, F) Capex of INR1.05bn-1.1bn will be incurred over the next 1-1.5 years on doubling spinning capacity, the socks unit, and integration of 6 warehouse facility, and G) Investment in digital transformation to strengthen the supply chain, coupled with increasing share from online sales. The Company is radically trying to change the way it operates by transforming itself to a value-driven, innovation inspired, asset light and brand powered company. We initiate coverage with a BUY rating at a TP of INR569 per share; valued at PE 25x and EV/EBITDA of 16x FY23E; provides an upside of 55%.

Inefficiency in Supply Chain; mother of problem: Working Capital as a % of sales stood at 53.7%/60.2%/54.6% in FY19/FY20/FY21, respectively. During this period inventory days stood at 181/173/183 and Debtor days stood at 122/134/115, respectively. The issue is inefficiency across supply chain, which leads to inventory clogging and rise in receivables. Through Project Lakshya, DIL and Vector Consultants is applying Theory of Constraints, a process improvement methodology that emphasizes the importance of identifying the "system constraint" or bottleneck. The objective is to increase the asset turns of distributors and retailers and to reduce the inventory levels.

Strong market positioning & climbing the ladder of premiumization: DIL has a strong portfolio of sub-brands like Dollar Big Boss (premium Innerwear), Missy (Women's casuals), Champion (kids), Force Go wear & Dollar Ultra Thermals & Force NXT (Premium to super premium segment). DIL has aggressively pursued various marketing & promotional activities to compete with existing players in the industry. DIL has consistently invested in its brands. It spends 7-8% of its revenues on brand building through celebrity endorsements, extensive publicity & quality-enhancing programmes. This has helped drive a strong brand recall & helped create strong brand equity leading to customer stickiness. This further enables it to pass on RM price rises & benefits to consumers without curtailing its margins.

Unlocking JV synergies with Pepe Jeans: DIL aims to further accelerate its footprint in the premium inner and leisure-wear space through 50:50 JV with Pepe Jeans Innerfashion. This JV will have exclusive agreement for sales in India, Bangladesh, Bhutan and Srilanka. DIL has been in process of scaling-up brand "Pepe" through continuously expansion of its product range.

Improving financials: We expect DIL to report a Revenue/EBITDA/PAT CAGR of 15.1%/22.6%/22.8% to INR1,373cr/INR207cr/INR129cr, respectively. EBITDA margins to improve by 178.4bps to 15% in FY23E. RoCE/RoE/RoIC to improve by 295bps/140bps/290bps over FY21-FY23E to 16.6%/18.6%/16.2%, respectively in FY23E.

INR in Cr	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,029	967	1,037	1,190	1,373
EBITDA	136	105	138	174	207
EBITDA margin (%)	13.2	10.8	13.3	14.6	15.1
PAT	74	57	86	109	129
PATM (%)	7.2	5.9	8.3	9.1	9.4
EPS(in INR)	13.1	10.0	15.1	19.1	22.8
ROCE(%)	14.2	10.5	13.6	15.9	16.6
PE(x)	28.3	36.3	24.4	19.2	16.1

Source: Company , Arihant Capital Research

Valuations & Recommendations

Dollar has built a strong portfolio of brands in the economy and mid-premium segment. After having established brands like Dollar Regular, Big Boss under the 'Dollar' umbrella, It is shifting focus towards premium segment by introducing new brands and entering into newer product categories for diversifying from being a predominantly Men's Innerwear company to a lifestyle brand catering to Men, Women and Kids segments

With rising consumerism, the Indian consumers are in the middle of a transitional phase. The new age Indian customer is radically different from what one could have imagined only a few years ago. The changes are reflected in both the core value system, the general lifestyle as well as the purchase choices. And this change has also trickled down to intimate wear, a category earlier perceived as hidden.

Given the change in preference of consumers towards branded products, we believe Dollar is well position to capture incremental growth. Further, with no major capex and likely capping on add expenses the company's margin and return profile are likely to see improvement.

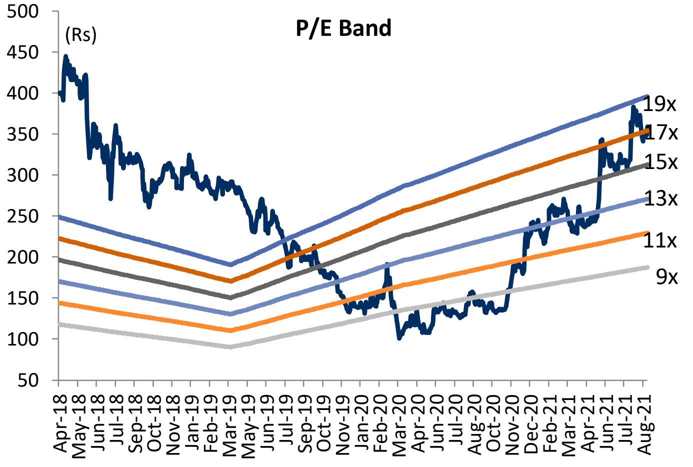
Advertising, public relations, sales promotion, and personal selling all are essential parts of the promotional mix of a marketing plan. Dollar industries over the years have been one of the highest spenders on advertisement compared to peers. The company spends ~8-10% of its revenue on brand promotion activities vis-à-vis its peers who spend close to 4%-7%. We believe all these efforts have borne fruits with the company establishing itself as a prominent brand. Further in order to capitalize on such heavy spending the company would provide higher incentives to its distributors. Going forward, we believe that such expenditure is expected to grow slower than revenue growth which is also likely to improve margins.

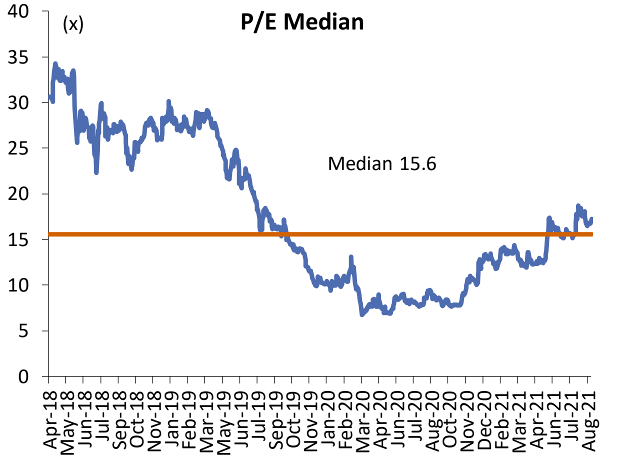
Post the Covid-19 pandemic, we believe, low ticket sized branded knitted-wear as a category is all set to go through a structural shift. DIL's inherent advantage of strong equity coupled with last mile reach through its robust distribution network developed over last 5 decades makes it a clear beneficiary of consumers shifting towards affordable branded quality products.

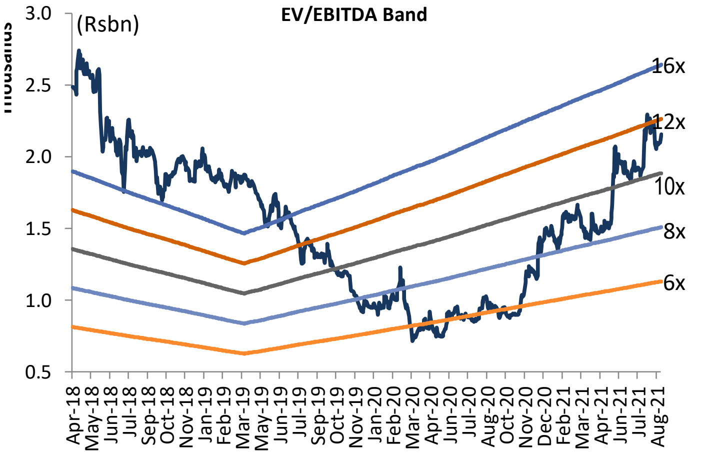
The company is in process of strengthening its internal systems and improving distribution of high value brands. The company's focus on the higher-value-added category is expected to lead to changes in the product mix toward the premium category where realisations are higher. Therefore, we believe that these efforts would help the company to achieve an EBITDA margin of 14.6%/15.1% in Fy22E/FY23E, respectively from 10.8%/13.3% in FY20/FY21, respectively.

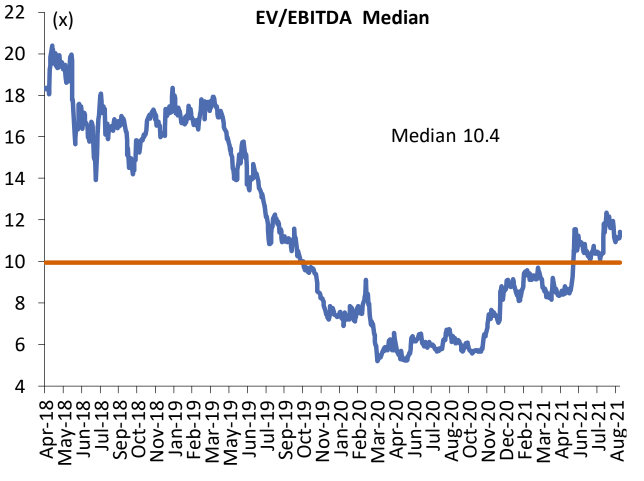
At CMP, the stock trades at 19.2x/16.1x P/E and 12.7x/10.5x EV/EBITDA based on FY22E/FY23E earnings, respectively, against its four-year median of PE and EV/EBITDA of 15.6x and 10.4x respectively. We feel that DIL has evolved from being a regional brand to an all-out pan India player with a string brand recall. Dil has been gradually inching towards the mid-premium and premium segment with an array of strong bouquet of brands with a continuous brand investment would enable DIL to leverage the industry demand. We expect DIL to post Revenue/EBITDA/PAT CAGR of 15.1%/22.6%/22.8% to INR1,373cr/INR207cr/INR129cr, respectively in FY23E.

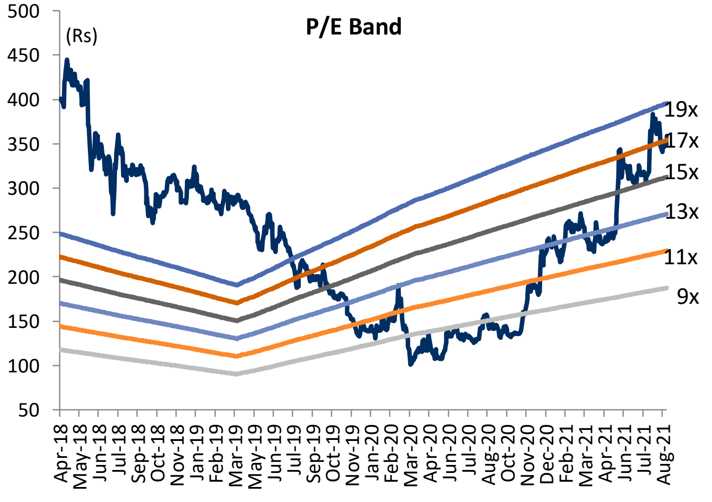
We initiate coverage with a BUY rating at a TP of INR569 per share; valued at PE 25x and EV/EBITDA of ¬16x FY23E; an upside of 55%.

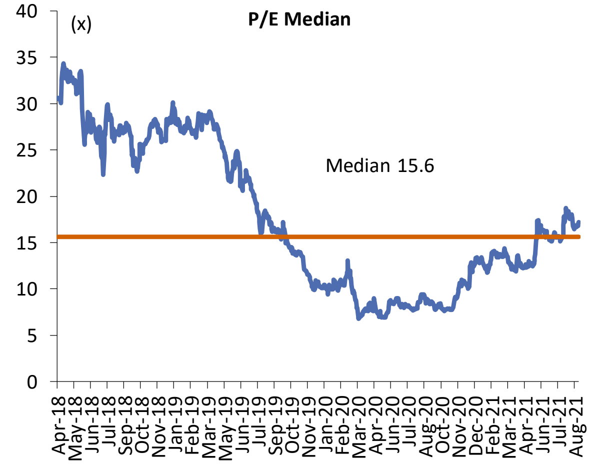












Source: Arihant Capital Research

Peer Comparison

Earlier, the innerwear industry was a highly fragmented one but has now evolved into a more organized space with intense competition among the major domestic players. With a rapid pace of growth in the industry in the foreseeable future, the competitors are trying to maintain similar prices and enter into every product segment possible to capture a share in the market. Currently, the innerwear industry provides an attractive opportunity in the premium segment with consumers becoming more fashionable and brand conscious.

In the domestic market, there are three players Dollar, Lux and Rupa & co are fighting an intense war to capture a pie of the premium segment. Page is already enjoys strong market positioning in the premium segment. Rupa acquired a license from “Fruit of the Loom” a wholly owned subsidiary of Berkshire Hathaway to manufacture, distribute, adverse and sell innerwear and outerwear products of the “Fruit of the loom”. On other hand Dollar Ind or DIL made a smart move through a JV with “Pepe Jeans” which will give them a profit sharing opportunity as well as direct access to the 250+ EBOs of “Pepe Jeans” that makes DIL much more promising and convincing.

Why Dollar?

Fittings and quality have always been Dollar’s USP and it aims to further enrich its product mix by expanding their portfolio reach and focusing on the super-premium segment. If we compare this above-mentioned player’s as per their sales in terms of distributer’s and MBOs metrics, Dollar is much more efficient than other two and they are also planning to come out with their own EBOs which justifies their expectation of targeting INR2,000cr revenue by FY24E. DIL is targeting high double digit YoY sales growth organically through sharpening their focus on the super-premium segment with their recent JV with the global brand “Pepe Jeans” and aggressive dealer push in the economical segment along with a possibility of acquisitions. **DIL has been gradually inching its presence in mid and premium market segment with focus on high growth categories like women’s leggings, thermal wear, premium inner-wear and leisure wear.** Several macro and micro factors compel us to believe a good visibility of growth in the textile sector. **We believe DIL is perfectly poised to capitalize the upcoming growth in the textile sector through a series of measures like backward integration, JVs, EBOs etc. which would result in higher top-line growth and improved operating margins.**

Comparative Analysis

	CMP	Market Cap	Sales		Growth (%)	EBITDA (INR cr)		EBITDA (%)		PAT (INR)		PAT (%)	
Company	(INR)	(INR cr)	FY20	FY21	YoY	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Dollar	346	1,965	967	1,037	7.2%	105	138	10.8%	13.3%	59	88	6.1%	8.4%
Lux	3,893	11,706	1,203	1,929	60.4%	188	382	15.7%	19.8%	126	274	10.5%	14.2%
Page	30,859	34,408	2,946	2,833	-3.8%	533	527	18.1%	18.6%	340	344	11.5%	12.1%
Rupa & Co	430	3,419	941	1,261	34.0%	125	258	13.2%	20.4%	80	181	8.5%	14.4%

	ROE (%)		ROCE (%)		EV/EBITDA (x)		PE (x)		EV/Sales (x)		Asset Turn (x)		D/ E	
Company	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Dollar	13.5%	17.3%	14.6%	18.8%	7.5	10.0	10.6	14.9	0.9	1.4	1.1	1.2	0.5	0.2
Lux	27.6%	27.1%	29.5%	31.6%	12.9	33.5	18.8	46.9	2.07	6.6	1.5	1.43	0.3	0.2
Page	43.0%	40.0%	57.8%	55.5%	33.7	61.1	55.0	99.4	6.4	11.8	2.1	1.76	0.1	0.0
Rupa & Co	13.3%	25.6%	15.4%	30.5%	8.0	9.2	11.6	13.5	1.13	1.9	0.9	1.17	0.2	0.1

Source: Industry & Arihant Capital Research CMP: As on 27th August 2021

Distribution Channel Comparison

Company	FY19	FY20	FY21
Dollar			
Retail Reach	1,00,000	+1,00,000	+1,10,000
Distributors	950	1,000	+1,000
Rupa			
Dealers	1,000	1,000	+1,200
EBOs	10	7	7
Retail	1,25,000	1,25,000	+1,25,000
Lux			
EBOs	9	9	11
LFSs	160	160	160
Distributors	950	+950	+1,150
Retail	¬2,00,000	¬2,00,000	+2,00,000
Page			
EBOs	+720	756	+930
Retail	+63,000	+66,000	+78,000

Source: Industry & Arihant Capital Research

Investment Rationale

Inefficiency in Supply Chain; mother of problem

In an innerwear industry which is highly fragmented and a lower price point, it's little product differentiation. Most of the players operate at the similar price points, comparable quality of products and relative to the same consumer base (barring super premium category). Brand stickiness is the lowest and strong direct reach to the retailers is what sets you apart from the competition.

Retailers play a huge role in persuading a buyer to buy certain brands and are able to convert 55-60% of the time. Hence, these retailers become critical for any company. The problem arises, when the retailers of small towns are not serviced by the distributors. The semi-wholesale players bridges the gap and they buy the product from the company's distributors and sell them to the retailers. This arises a major issue as the retailers ends up buying the products what these wholesalers suggests. This leads to inventory clogging pressure on distributors, retailers and company.

Further, many brand owners have not done any mapping of retailers at pan India level. This also poses a problem for not indentifying the true market potential. These two legged problem has negatively impacted the working capital of the company.

Working Capital as a % of sales stood at 53.7%/60.2%/54.6% in FY19/FY20/FY21, respectively. During this period inventory days stood at 181/173/183 and Debtor days stood at 122/134/115, respectively. The issue is inefficiency across supply chain, which leads to inventory clogging and rise in receivables.

To counter the negatives posed, Company has started to work with Vector Consultants to implement Theory of constraints (TOC), in an attempt to identify the system constraints or bottleneck and to keep a tab on its working capital mainly by reducing receivables and inventories. DIL initiated its inventory transformation project to replace its existing inventory push model. Through this project, DIL aims to increase the regional presence of its products by mapping out the potential retail outlets, increase channel partners in the mix and optimise working capital levels.

Company started appointing distributors in regions where it previously had none or negligible reach. The project required mapping individual potential stores wherein the company's products are required to be sold to a particular distributor appointed by DIL. This approach would enable them to reduce their working capital cycle by reducing their receivables and inventories.

All of its products were routed through the distributors before they were delivered to the retail outlets, which were then marketed to the consumers. Company is focusing on bridging this gap and marketing its products directly to the retailers, thereby replacing the traditional push model with the pull model. The primary objective was to strengthen capital efficiency at the retail level; the retailers would have the flexibility of buying products on a per-piece basis instead of having to buy the entire box like before. This has resulted in the increase in stocks of its products at the retail level, which in turn, has enabled it to widen and deepen its footprint.

Due to the size of the project, involvement of multiple parties and covid 19 effectively slowed down the implementation as it requires field work, the company will require minimum 2 years for the successful implementation of the project. The process will result in maximised sales, better inventory management and better realizations for the company.

The company provides 10-12% of the distributor margin and is also on the verge of providing the ‘channel financing’ (below than the bank rate of 11.5-12%) to the distributors via NBFCs in next 2 months and will enable the distributor to be more aggressive in terms of selling and will entail them for the payment on the day zero. Hence, management expects receivable days which stood at 120days in FY21 to reduce by 10days, which will eventually improve the working capital days by 15 in FY22E.

Process of getting retailers on board commences

The sales force under the direction of Vector has been visiting retailers, explaining Project Lakshya and enrolling them. To date, 55% of estimated outlets mapped, 25% of mapped outlets enrolled, mapped 52% of available pin codes. Mapped 125,000 retailers already, of which 30,000 have been enrolled under the project. The unexpected Covid-19 second wave slowed down the project. Planning to expand the project in Tamil Nadu and has started the mapping process in Andhra Pradesh. Of its +1,000 distributors, 61 are under Project Lakshya. By FY22E, the company will enroll 150-200 distributors.

Company has successfully implemented this project across five states, namely: Karnataka, Rajasthan, Gujarat, Maharashtra and Telangana. As a result of adding distributors in these regions, the number of retailers it used to engage with has grown multi-fold. Encouraged by the success of the model in these states, company plan on implementing this in 10 more states in FY22E.

How DIL is effectively strategizing?

The company’s sales representatives physically visit to a potential outlet and explain in detail the new model. The retailers who got onboard are given loyalty rewards. A tele-beat is planned for all the retailers where their orders, complaints, queries and grievances are noted and addressed in time bound manner. In order to increase the replenishment model, the retailers are encouraged to place order in smaller quantities. The company has implemented the universal price list of all retailers. In addition, the company is increasing focus on new appointments of distributors in the areas where no direct or low company representation existed.

The retailers’ are serviced through the company appointed distributors. In addition, the retailers can also place orders through tele calling and physical visits. Earlier, each distributor was serving 200 retailers and with implementation of project Lakshya, the company has mapped ¬1000 retailers in the allocated areas. This increased the target retailers to ¬400. However, the target number will differ depending upon the state to state and the further rolling out of project. But, the management is confident of increasing minimum 50% rise in targeted retailers under distributors.

We believe that with lower receivables and faster inventory turns at the dealers level, the company will be able to reduce its working capital requirement significantly. In addition, the entire process will improve the sales and better realizations for the company going forward.

Implementation under Project Lakshya

State	Coverage % (Mapped vs Estimate)	Coverage % (Mapped vs Enrolled)	Coverage % Pin Code
Andhra Pradesh	18%	-	22%
Gujarat	47%	20%	40%
Karnataka	48%	34%	56%
Maharashtra	77%	16%	73%
Rajasthan	70%	35%	68%
Telangana	43%	18%	28%
Uttar Pradesh	19%	-	28%
Total	**55%**	**25%**	**52%**

Source: Company & Arihant Capital Research

Working Capital Cycle to improve

At the distributor level, the inventory level have started optimizing and witnessing a decline. However, the inventory days will vary across distributors depending upon the area allocated and the previous inventory held. Although, on absolute basis, the inventory held by distributors are almost at the same level as they deal in all kinds of product verticals.

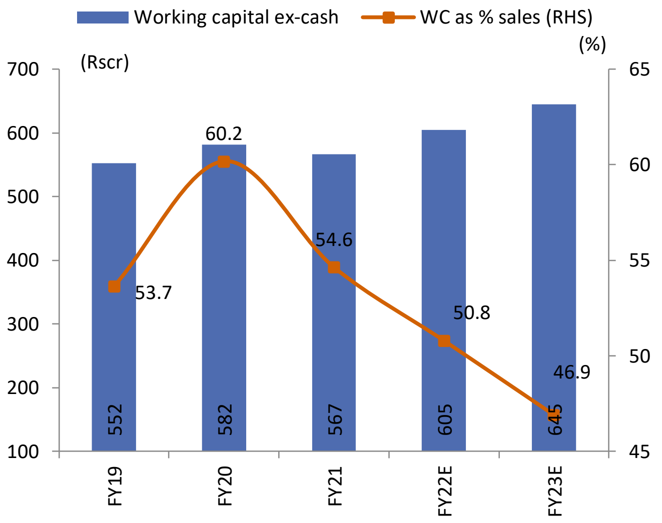
Due to Covid 19, the Project Lakshya experienced a slower rolled out as it involves field work. However, management is confident of reducing the inventory days to 45 (calculated on sales) at distributor level starting in FY22E.

The company intends to cover 50% of the states at pan India level by FY23E. The company currently has +1,000 distributors of which 61 distributors have been covered and is planning to increase the number to 180-200 by FY22E. We expect the throughput to increase and see fewer schemes and incentives flowing to distributors and retailers.

Hence, we expect inventory days to streamline to 175days/162days in FY22E/FY23E, respectively from 173days/183days in FY20/FY21. the debtor days to decline to 105days/100days in FY22E/FY23E, respectively from 134days/115days in FY20/FY21. Thus, Working Capital days to improve to 224days/206days in FY22E/FY23E, respectively from 257days/242days in FY20/FY21.

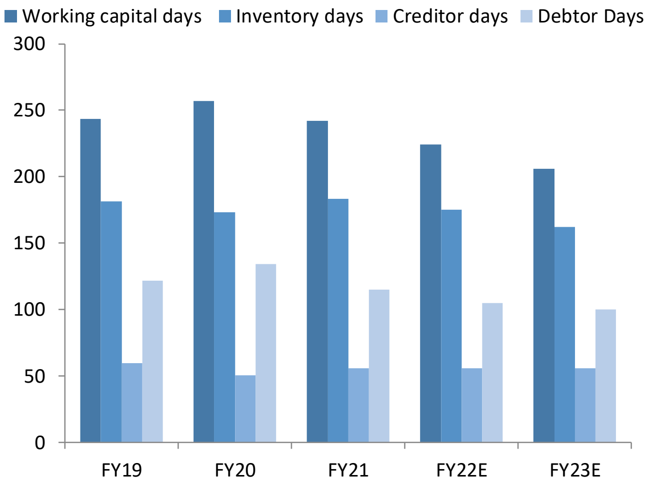
Hence, Working Capital ex-cash as a % of sales to improve to 50.8%/46.9% in FY22E/FY23E, respectively from 60.2%/54.6% in FY20/FY21.

WC ex-cash as a % of Sales improving



Source: Company & Arihant Capital Research

Prudent Working Capital Days going forward



Source: Company & Arihant Capital Research

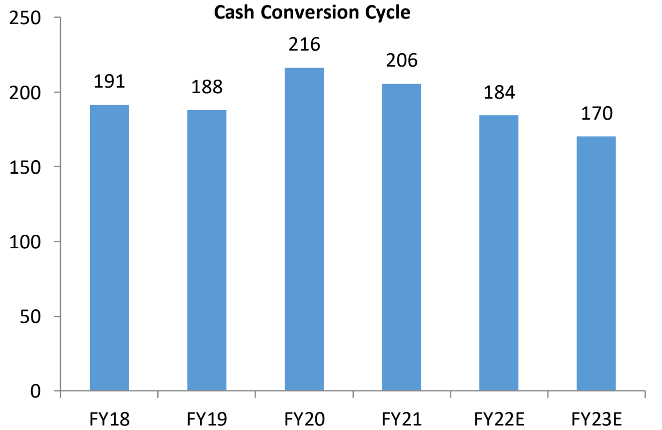
Cash Conversion Cycle to improve

The cash conversion cycle increased from 191days in FY18 to 216days/206days in FY20/FY21, respectively due to higher working capital cycle led by increasing debtor days from 106days in FY18 to 134days/115days in FY20/FY21, respectively and also higher inventory days from 171days in FY18 to 173days/183days in FY20/FY21, respectively.

However, we have modelled 184days/170days in FY22E/FY23E of a cash-conversion cycle, as inventory would reduce to 175days/162days and debtor days to reduce to 105days/100days in FY22E/FY23E, respectively with an improvement when ARS (auto-replenishment system) is implemented across all distributors. Plus, through Project Lakshya the company is planning to increase asset turns of retailers and distributors and will reduce the inventory levels for both.

Hence, we expect ex-cash working capital needs to reduce from 54.6% in FY21 to 50.8%/46.9% in FY22E/FY23E, respectively.

Cash Conversion Cycle to improve going forward



Source: Company & Arihant Capital Research

Strong market positioning & climbing the ladder of premiumization

Over the years, DIL has progressively graduated from a mass market men’s innerwear brand (89% revenues in 2006) to a house of brands mainly focusing on mid & premium segment which caters to large portion family innerwear requirements. The company has over the years broadened its product portfolio, catering to both premium and economy class which spans innerwear products across all price ranges, thermal wear and casual outer wears.

DIL has grown over the last decade and chartered a ¬15% market share in the intensely competitive domestic hosiery industry. Its focus on branding and advertising has built a small hosiery company into an innerwear giant. Over time, with the launch of products in different segments, it has transformed itself from merely men’s innerwear to a lifestyle brand. The company through its Nine home grown brands, has created a strong position in economy and mid-premium innerwear.

Company has revamped its brand architecture in such a way that the word ‘Dollar’ became synonymous with all its products. It gives the consumers a clear idea about its product offerings and enables it to seamlessly connect with millennials.

Post rebranding announcement in May, 2020, the brand has created 5 broad categories – Dollar Man, Dollar Woman, Dollar Junior, Dollar Always, and Dollar Thermals under which there are various products. Additionally, Force NXT, RKG, Force Go Wear, and Club will be standalone brands.

DIL has a strong portfolio of sub-brands like Dollar Big Boss (premium Innerwear), Missy (Women’s casuals), Champion (kids), Force Go wear and Dollar Ultra Thermals and Force NXT (Premium to super premium segment). Dollar has products priced in the range of INR50-INR650 with presence in both innerwear and knitted outerwear. The company has continuously strived at new product introduction every year.

The Company provides a wide choice in terms of product categories; DIL has extended from men's innerwear to casuals, from female inners to stylist leggings and capris from t-shirts for kids to seasonal winter thermals. **The company have a very wide portfolio in terms of pricing, for men from INR50 to INR600 per unit contribute 70-75% of the revenue, for women from INR80 to INR650 per unit contribute 9% revenue and for children from INR50 to INR400 per unit contribute 1% of the revenue.**

DIL's chronological and tiered pricing strategy has made it possible for consumers to graduate impeccably to the next quality level without incurring substantial increments. As a result, they have achieved superior price-value proposition when compared to international brands and a steadily increasing slice of the market.

Persistent Brand Investments

Brand investments by organized players has been significant and in ranges from 8-10%, barring Page Industries which has a brand investment to the tune of 3-4%. In order to create a strong and sustainable portfolio of brands, Dollar has been consistently investing aggressively behind its brand promotions and activities, extensive publicities and quality enhancement programs. This has helped the in creating a household brand with a strong brand recall. Dollar has successfully used Bollywood celebrities to endorse its products. In 2005-06, it signed Salman Khan as the brand ambassador and in 2008, Akshay Kumar was signed as the brand ambassador of Dollar Bigboss.

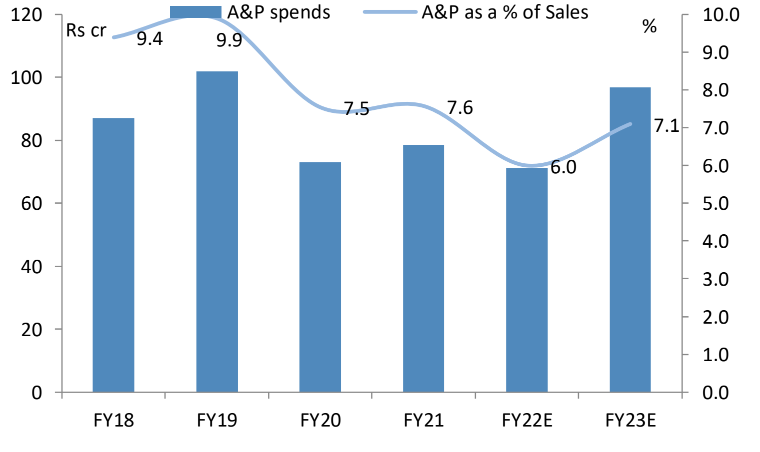
In last 4 years it has spent ~INR340cr behind A&P activities (~8.6% of total FY18-21 revenues). A significant part of A&P investments has been allocated towards mid-market brand “Bigboss”- endorsed by Akshay Kumar and women’s legging brand “Missy”- endorsed by Chitrangada Singh.

Over last 5 years, overall branded B2C revenue growth was of the tune of CAGR 7% which was almost equally driven by volume growth of 2.6% and realization growth of 3% CAGR. Dollar has been gradually inching its presence in mid and premium market segment with higher growth in categories like women’s leggings, thermal wear, premium inner-wear and leisure wear.

Q1 and Q3 are the strongest quarter for the company. For FY22E, due to covid second wave, the Q1 was a washed out quarter for the company. Given the covid and planned cost reductions, management has cut down the ad spends to the tune of 5.5-6%. However, given its emphasis on branding and launch of extension of products, these expenses will return to past levels from FY23E.

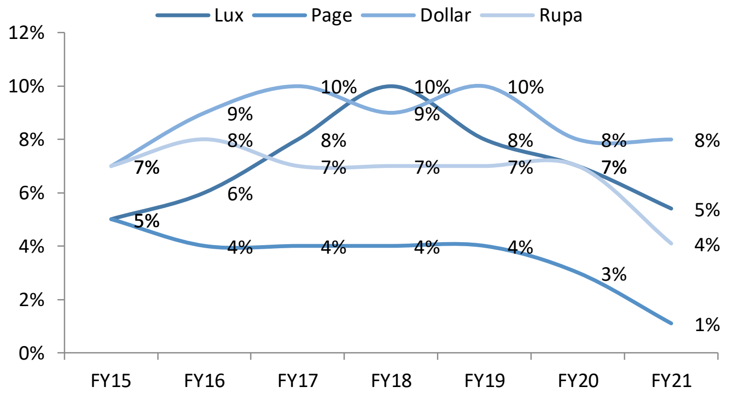
All the initiatives toward branding have helped create strong brand equity leading to customer stickiness. This enables it to pass on raw-material price rises and benefits to consumers without curtailing its margins.

DIL’s Ad Spends to Sales averaged at 8.6% in the last 4 years



Source: Company & Arihant Capital Research

DIL's brand investments in line with its peers



Source: Company & Arihant Capital Research

Scaling up the value pyramid towards Premiumization

The company have been able to bring value proposition and steady launch of newer product categories which have been a key growth drivers over the years. However, the management is upping the ante and is now focussing on premium and super premium categories by becoming aggressive in this space.

Apart from the increasing share of premium and mid premium products, up-trading has been seen within segments, reflected in improving average realisations across the three sub-segments.

Leveraging its expertise and superior product knowhow and intending to upgrade customers to premium products, DIL started focusing on increasing the proportion of premium products and launching higher ASP brands and products.

Within the entire basket of company's brands, as on FY21, Dollar-Bigboss and Dollar- Regular (Lehar) contributed ¬43% and ¬34% of overall branded B2C business followed by Missy and Thermal- Ultra which contributed ¬8% and ¬9% respectively.

We believe that with the increased focus and brand investment, the contribution of Big Boss to remain constant of 42.5% in FY23E. Force Nxt contribution to increase from 3% in FY21 to 4.4% in FY23E and Missy to increase from 8% in FY21 to 8.6% in FY23E. Hence, we expect the contribution of economy segment to fall from 33.7% in FY21 to 31.3% in FY23E. Thus, we expect the margin to improve from 13.3% in FY21 to 15.1% in FY23E.

DIL with its reach of +1.1 lakh retailers through its +1,000 distributors and wholesale channel has still a lot of room available for further penetration. The total market for DIL's product portfolio in India is ~6 lakh+ retailers, provides an enough opportunity for the company to grow in coming years.

Product Portfolio

➢**Bigboss:** The brand contributes ~42% to the total revenue in FY21 and deals in the mid premium range, with the EBITDA margin of 12-13% and average selling price nearly INR65-67.

➢**Missy:** This brand line caters exclusively to the women innerwear segment that contributes ~9% of the total revenue in FY21, which yields an EBITDA margin of 15-17% and the average selling price of the products in this segment hovers around INR80-90. **Off-late the, the management has become quite aggressive in this segment and plans to launch lingerie by end Nov 2021. It also plans to extend the brassiere segment, athleisure segment, intimate wear, etc.** For this, the company plans to add 100 odd people and 25-30 people will be added in the field. **The company targets to achieve INR180-200cr turnover from this segment by FY25.**

➢**Economy Brand:** This brand attracts the mass segment and contributes 33.7% to total revenue in FY21, with the EBITDA margin of 8-10% and average selling price nearly INR35-40. Over a period, management expects the contribution from this segment to reduce.

➢**Force NXT:** DIL introduced Force NXT in recent past to foray into premium men innerwear segment. ~3% of the total revenue comes from this segment in FY21 which generates an EBITDA margin of 18-20% and the average selling price lingers around INR175-190. Going forward, with premium drive, we expect the contribution from this segment to increase to 3.4%/4.4%, in FY22E/FY23E, respectively.

➢**Force Go:** Forge Go was created with an idea to make the company's presence felt in the sportswear and leisure wear segment. It contributes ~4% of the revenue which fell down to 3% in FY21 due to covid 19 lockdown. The brand achieves an EBITDA margin of 13-13.5%. The average selling price in this segment is around INR125-150.

➢**Champions:** DIL made their inroads into the kids segment with this brand which contributes 1% of the total revenue in FY21. This brand line offers a considerably high EBITDA margin of 20-21% and the selling price hovers around INR95-110. As of now, the company is developing a marketing strategy to increase penetration in the segment which is +90% unorganized & price sensitive. **The kids-wear market in India is estimated at INR819bn with estimated CAGR at 8.5% for the next five years** based on booming population coupled with factors such as growing number of nuclear families system, which in turn facilitates increased spending on children, greater brand awareness among kids, and better focus on this segment by organized players. We believe this provides huge opportunity for DIL to grow in this segment. However, the segment is very dynamic and every 2 months the design and color needs to be changed. DIL is working on the formulation of strategy and will take another 2 months time to come up with a concrete plan.

➢**Thermal:** DIL's thermal wear business generates around 9% of the revenue despite its cyclical nature and high reliance on the intensity of the winter. It yields an EBITDA margin of 15-17% with average selling price of INR180-220.

Brands of DIL

Source: Company & Arihant Capital Research

Key Brands & Target Segments

Brand	Segment
Dollar Man	
Big Boss	Mid Premium
J-Class	Premium
Athleisure	

Brand	Segment
Dollar Woman	
Missy	Premium

Brand	Segment
Dollar Junior	
Champion	Mid Premium
Kids Care	

Brand	Segment
Dollar Always	
Lehar	Economy

Brand	Segment
Dollar Thermals	
Ultra	Premium
Winter Care	Mid Premium

Brand	Segment
Standalone Brands	
Force Nxt	Premium
Force Go Wear	Premium
Pepe	Super Premium

Source: Company & Arihant Capital Research

How the ASP movement for the past 4 years?

Brands	FY18	FY19	FY20	FY21
Big Boss	57.6	63.7	64.9	67.1
Champion	95.9	90.7	112.2	94.4
Force Go Wear	111.6	111.7	124.3	148.3
Force NXT	110.9	121.5	175.1	188.4
Missy	75.4	83.7	87.7	78.6
Pepe	NA	80.0	76.0	70.8
Regular	33.8	36.4	38.7	36.9
Thermals	150.2	181.5	222.2	212.8
Socks	NA	23.3	28.2	26.6

Source: Company & Arihant Capital Research

The company manufactures more than 350 products across the all innerwear segments and has been able to follow a tiered pricing strategy across the brands which helped the consumers to gradually up-trade the product category without incurring substantial increments. As a result, the company has been able to achieved superior value proposition when compared to international brands. With a strong brand recall where the company is present in highly fragmented market with minimum differentiation of the products, the company has been able to steadily increase the slice of the market.

Premium ASP has been on a rising trend

ASP (INR)	FY18	FY19	FY20	FY21
Premium	110.9	117.6	145.5	174.6
Mid Premium	63.2	68.6	70.4	70.3
Economy	33.8	35.8	37.7	36.5

Source: Company & Arihant Capital Research

The Company provides a wide choice in terms of product categories; Dollar has extended from men's innerwear to casuals, from female inners to stylist leggings and capris from t-shirts for kids to seasonal winter thermals.

The company caters to the entire pyramid of consumers by offering varied product basket at various price points. DIL have a very wide portfolio in terms of pricing, for men from INR50 to INR600 per unit contribute 70-75% of the revenue, for women from INR80 to INR650 per unit contribute ¬9% revenue and for children from INR50 to INR400 per unit contribute ¬1% of the revenue.

DIL has largely been present in economy and mid-premium segment through its **Dollar Regular (Realization ¬INR38/piece) and Big Boss (Realization ¬INR67/piece) brands with ¬34% and ¬43% revenue contribution** in FY21, respectively. The company is now focusing on premium category with its brand **Force NXT (Realization ¬INR189/piece)** launched in August 2015 and contributed 3% of FY21 sales. In addition, the company plans to grow this brand focussed on aspiration segment over the next 3-4 years.

Further, the company is becoming aggressive in **'Missy' brand through launch of various products like brassiere, innerwear, athleisure and legging products. DIL set to launch new lingerie category by the end of November 2021.**

As per the management, the company is increasingly focussing on the category between mid-range products and super premium products, the space largely monopolised by Jockey. The company's focus on the higher-value-added category is expected to lead to changes in the product mix toward the premium category where realisations are higher.

EBITDA margin to improve with rising premium contribution

Peers like Rupa and Company (Rupa) and Lux industries (Lux) have higher EBITDA margin compared to Dollar as it had concentrated on gaining market share by pricing its products marginally lower than other mainstream players like Rupa and Lux. With brands of Dollar having gained substantial acceptance amongst consumers, it has launched its premium brand 'Force NXT' (revenue contribution of 3%) and focussing to achieve strong growth in the premium segment by aggressive advertisement spend and brand promotion activities.

DIL's brands have been positioned around the tagline of 'affordable premium'. The products carry certain attributes and consumers perceive it as an aspirational brand with affordable pricing, quality and styling. This we believe will help the company to grow faster during the sectorial growth and will provide support during the sectorial troughs.

Over the years, Dollar has widened and deepened its distribution networks across India, to craft easy access to their product for their customers. The company works in unison with trade partners to make sure that its products and collateral are visibly showcased across urban metropolis and rural hinterlands. The Company has also boosted off-take through e-commerce, enhancing consumer convenience and sending out a strong message of adaptability.

The company currently has +1,000 distributors and +1.1 lakh retail touch points. In addition, the company is planning to open an EBO outlet, in-line with its peers, which will work under FOFO model. By the end of October 2021, the company will open 1 outlet and 8-9 outlets by FY22E. The company is planning to have 100 EBOs in 2 years or more.

<u>We expect EBITDA margins to improve going ahead on the back of increased share of premium products, gradual increase in ASP or average selling prices, cost optimization and increasing distribution channels.</u>

Sales % Contribution of Force NXT & Missy to increase, whereas Economy to decline over FY21-FY23E

% Of Revenue	FY18	FY19	FY20	FY21	FY22E	FY23E
Big Boss	43.1	42.0	42.0	42.6	42.7	42.5
Force Go Wear	6.8	4.0	4.0	2.0	2.0	2.6
Force Nxt	1.9	2.0	2.0	3.0	3.4	4.4
Missy	6.4	8.0	9.0	8.0	8.2	8.6
Regular or Economy	34.9	35.0	31.0	33.7	32.9	31.3
Champion	1.3	1.0	1.0	1.0	0.9	0.9
Thermals	6.0	7.0	9.0	9.0	9.0	8.8
Socks	0.0	1.0	2.0	1.0	0.9	0.8

Source: Company & Arihant Capital Research

JV with Global Giant; Pepe Jeans to cater the super premium category

The Company had entered into a 50:50 JV with "Pepe Jeans" in August 2017. This partnership invested capital of INR200cr with Dollar and PEPE to invest INR36cr each over a period of 4 years and the rest to be funded by banks as a working capital loan. In this JV, management is guiding for an EBITDA margin of 18%.

The Joint Venture Company is to manufacture and market premium range of Fashion Innerwear, Loungewear, Gymwear, Sleepwear& Track Suits for Adults & Kids, in India under the brand name **Pepe Jeans London**. These products will also be made available in Sri Lanka, Nepal, Bhutan & Bangladesh.

Both the JV partners i.e. DIL and Pepe Jeans will hold 50% stake in the JV Company. The objective of tie up was both the companies to work towards creating a premium innerwear brand in the Country to offer an exciting and innovative range of aspirational products to the customers.

This partnership will give its products an exclusive access to Pepe's 350 shop-in-shop, 250 EBO's and more than 1,100+ A rated MBO's across the country apart from traditional channels of Dollar Industries Ltd.

We believe the JV with Pepe Jeans will give a boost to Dollar Industries and help Dollar increase their market share and penetrate the premium Innerwear segment. This association will also help Dollar in consolidating the market share. We expect the JV to break-even in 3-4 years time.

Pepe JV

Particulars (INR cr)	FY19	FY20	FY21
Sales	56.9	161.8	170.8
EBITDA	(33.9)	(47.9)	(44.4)
PBT	(32.6)	(42.2)	(39.3)

Source: Company & Arihant Capital Research

Backward Integration model & Consolidation of warehouses to aid better operating efficiency

DIL has adopted a prudent & phased investment strategy towards augmenting its in-house manufacturing capacity. It is the only branded innerwear player which has fully backward integrated manufacturing set-up. The Company has invested in progressive backward integration – from the consumption of raw cotton to final product delivery. The backward integration would help it in offering quality product for Force NXT brand.

✓In the spinning segment, DIL produces high quality NE20's & 40's 100% cotton combed yarn. Apart from captive usage it also sells premium quality yarn & processed fabric to international brands.

✓Captive production has increased form 0% in FY13 to 30% in FY17 and is currently 30-35%, while balance ¬70% is outsourced. **Going forward the company is planning to spend a capex of INR105-110cr over a period of 1-1.5 years.** Of which, INR55-60cr will be invested in behind in-house manufacturing capacity of increasing the spindles capacity from current 22,000 to 40,000 and INR45-50cr will be spent in the consolidation of warehouses in Kolkata. The company has 6 warehouses which is scattered across Kolkata. Kolkata is the one of the biggest market for the company and to mitigate the supply chain issue. **With consolidation, the company will be able to manage prudently the inventory and freight cost, thus improving the margin by roughly 100bps going forward.**

The reason for investment in the backward integration is owing to the demand supply mismatch and discrepancy in the quality of the fabric.

✓DIL has manufacturing set-up spread across Ludhiana (Thermals), Delhi (Socks), Kolkata (Job work stitching) , Tirupur (fully integrated set-up from raw cotton procurement till garmenting).

Manufacturing Capacities

Manufacturing Unit	Capacity	Location
Spinning	400 TPM	Tirupur
Knitting	300 TPM	Tirupur
Processing (Dyeing & Bleaching)	400 TPM	Tirupur
Elastic Production	10 Lakh MPA	Tirupur
Cutting	3 lakh pieces/day	Tirupur

Source: Company & Arihant Capital Research

The Company has manufacturing units with an environment-friendly infrastructure and also invested in 5MW wind energy at its Dindigul facility to meet the growing demand for renewable energy. Besides, the Company has also invested in a 1000-kilolitre eco-friendly effluent treatment plant which has resulted in 'zero liquid discharge'.

We believe, this backward integration – one of unlikely instances in India's innerwear hosiery sector – will help DIL to strengthen margins and earning profile above the sector average.

Financial Analysis

Revenue expected to witness a 15.1% CAGR over FY21-FY23E

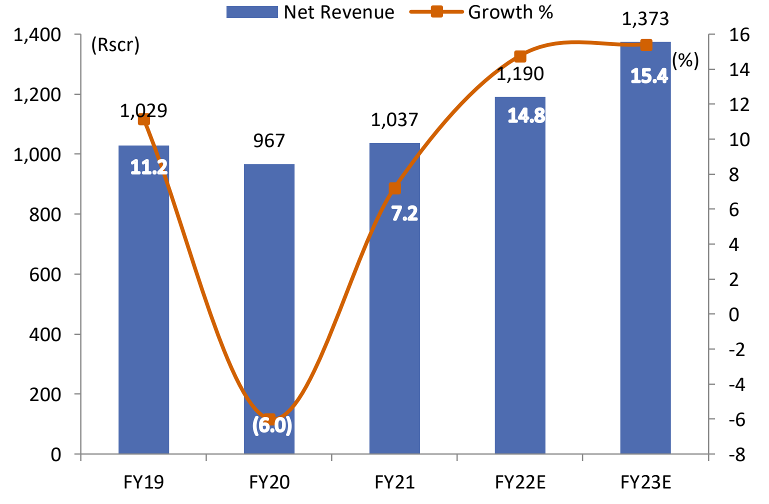
Branded Innerwear as a category being low ticket size and a bare basic necessity wasn't impacted much despite the Covid-19 related slowdown. Post easing of restrictions on lockdown, there was a strong pent-up demand across innerwear categories which was a big positive for large organized and Pan-India branded players.

With rising trend of shopping through online platforms, the company has increasing its focus and is planning to increase the online business contribution from current ¬2% to ¬7% in next 5 years. As of now, ¬100% of the online business comes from third party like Amazon, Flipkart, Myntra, etc. The company is working on D2C segment which is likely to become operational in next 1-1.5years.

Innerwear is a fragmented market where the string distribution channel becomes a key of growth. DIL is increasingly focussing on expanding its distribution across region. Currently, the company is strong is North, East, West and Central and together contributes 93% of the business. Southern India contributes 7% of the business, where it aims to increase the business. In the past 4 years, the company has expanded its distribution channel from 750+ distributors to +1,000 and +1.1lakh MBOs.

We model 15.1% revenue CAGR over FY21-FY23E on the back of higher value items growing robustly, transforming itself to a value driven, innovation inspired, asset light and brand powered company. In addition, the company is carving out a market share in the premium and super premium categories through modern outlets, EBOs and online platforms.

Revenue to grow at a CAGR of 15.1% over FY21-FY23E



Source: Company & Arihant Capital Research

Financial Analysis... continued

Increasing premiumization and expanded product bouquet to improve EBITDA margin

Most Indian innerwear brands cater to the economy and mid-premium sub-segments. For decades DIL had focussed on this segment and in the past couple of years, the company has become increasingly aware of the growing premium segments with better realizations. The company has increased offering in the mid-premium category, bridging the gap between the mass and premium segment.

Apart from the increasing share of premium and mid premium products, up-trading has been seen within segments, reflected in improving average realisations across the three sub-segments. **The average realisation for the economy segment has risen from ¬INR34 a piece in FY18 to ¬INR37 in FY21; similarly, mid-premium realisations grew to ¬INR111 a piece vs. ¬INR175. And mid-premium segment grew from ¬INR63 in FY18 to ¬INR70 in FY21.**

The company will continue to work on increasing the percentage of revenue of the premium category in the overall mix, thus providing further possibilities of margin expansion.

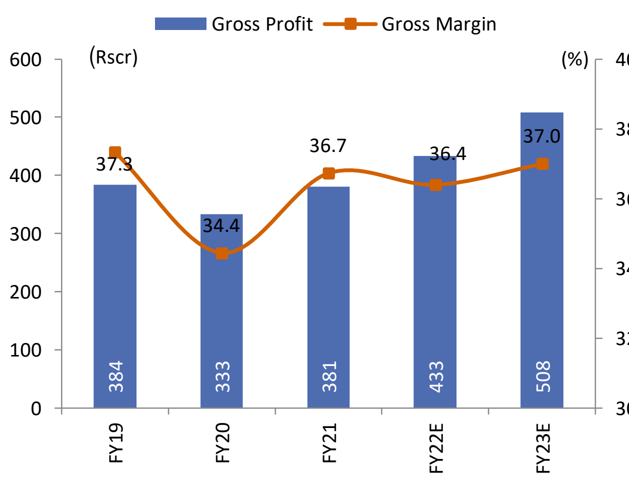
Over the nest FY21-FY23E, we expect the contribution of premium and mid-premium categories to grow by 17.6% CAGR, driven by launches, growth in points of sales and the company's increasing focus. However, we expect the economy segment to witness a slowdown in growth to 11% during the same period.

In addition, the company is going to curtail its Ad spends from 8-10% to ¬7% in-line with its immediate peers, which will also help in improving the margins going forward. Further, backward integration and consolidation of warehouses will also support margin expansion.

Hence, we expect EBITDA margin to improve from 13.3% in FY21 to 14.6% in FY22E and 15.1% in FY23E. Also, EBITDA to report a CAGR of 22.6% over FY21-FY23E to INR207cr in FY23E.

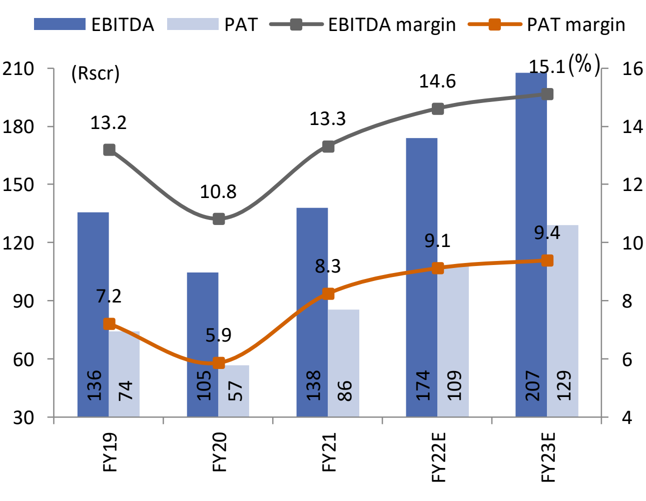
We expect a 22.8% PAT CAGR over FY21-FY23E, driven by healthy revenue growth and an improving margin profile.

Gross Margin to expand by 30bps to 37%



Source: Company & Arihant Capital Research

EBITDA Margin to expand by 178.4bps to 15.1%



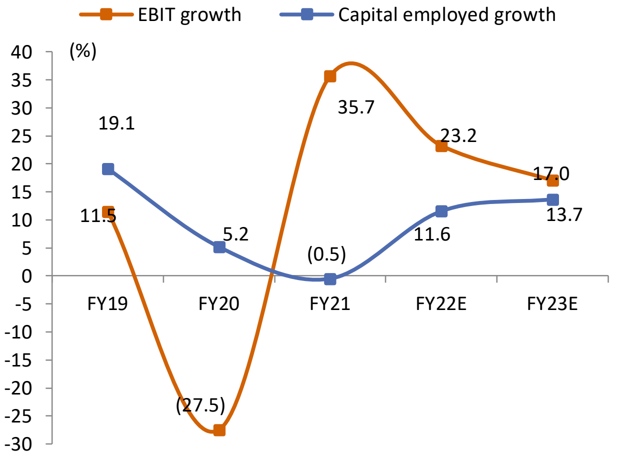
Source: Company & Arihant Capital Research

Return Ratios to Improve

In comparison to revenue growth of 15.1%, and EBIT growth of 20.1%, capital employed is expected to grow by 12.6% over FY21-FY23E.

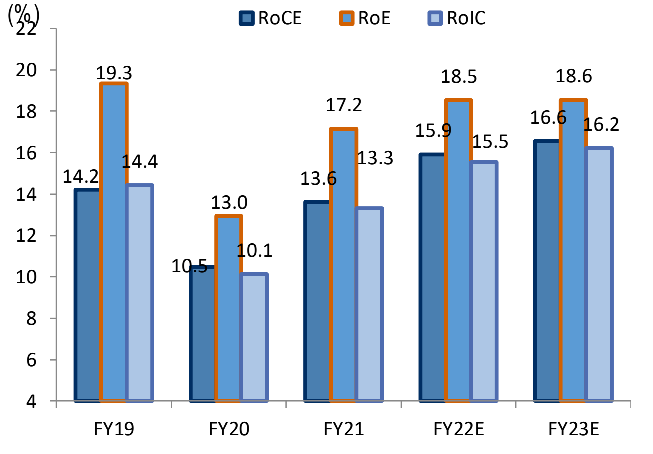
With a healthy EBITDA margin expansion and PAT growth, we expect return ratios to remain significantly going forward. We estimate RoCE to expand from 13.6% in FY21 to 16.6% in FY23E. RoIC to improve from 13.3% in FY21 to 16.2% in FY23E and RoE to improve from 17.2% in FY21 to 18.6% in FY23E.

Higher EBIT growth vs Capital Employed growth



Source: Company & Arihant Capital Research

Return ratios to improve significantly



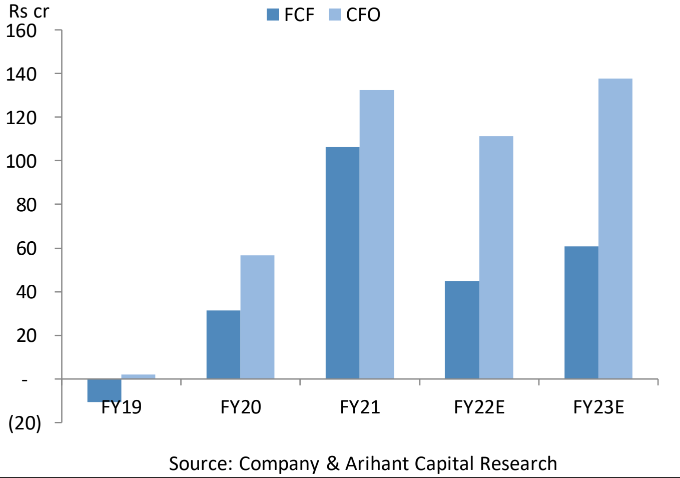
Source: Company & Arihant Capital Research

Healthy Cash Flow Generation

During FY19-FY21, the capex outlay was INR64cr, which in turn generated free cash flow (FCF) for the company to the tune of INR127cr over the same period. However, the company has chalked out a capex of INR105-110cr for the next two years.

With strong visibility of earnings growth, margin expansion and improvement in working cycle, we expect operating cash flow/free cash flow to improve INR249cr/INR106cr, respectively over FY22E-FY23E, compared to INR191cr/INR127, over a period of FY19-FY21, respectively.

Improving Cash Flow Generation



Source: Company & Arihant Capital Research

Indian innerwear market expanding fast and wide

➢From a basic requirement of a commodity product to a fashion product with an emphasis on comfort and styling, the innerwear industry has broadened its horizons over time.

➢Earlier, the innerwear industry was a fragmented space and was dominated by local and unorganized players. The entire industry was highly price-sensitive and people exercised caution in spending on innerwear. However, with rising incomes, higher discretionary spending, and growing fashion consciousness, the market witnessed a change in the trend with the introduction of organized and branded players in the industry.

➢The current size of the innerwear industry of India is INR27,931 cr (which accounts for 10% of the total apparel market) and is expected to grow with a CAGR of 10% to INR74,258 cr by 2027.

➢The men's innerwear market is expected to grow with a CAGR of 7% whereas the women's innerwear market is expected to grow with a CAGR of 12%.

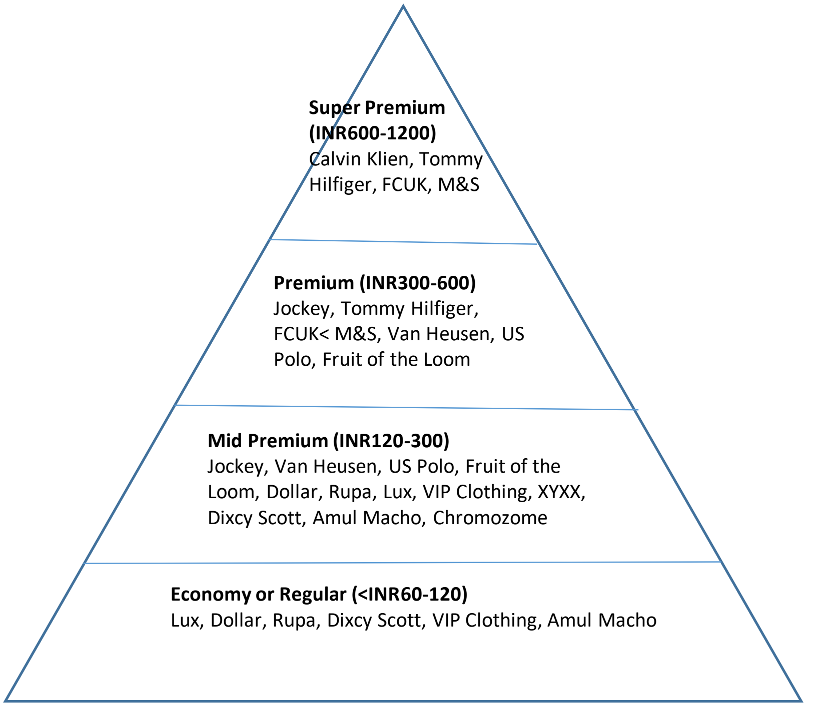
➢The increase in per capita income implies a rise in the purchasing power of the people. With massive economic growth, rising disposable incomes, and higher discretionary spending, there has been an emergence of a middle class that has become more brand conscious and is ready to experiment with fashion and style. Consequently, the per capita expenditure on innerwear is expected to double to INR300.

➢There has been a recent rise of occasion-specific products in the industry for different purposes such as sports, fashion, comfort, casual, etc. Moreover, there has also been a recent uptake of the online retail channels which has led to an increase in sales by targeting fashionable youth without access to retail outlets.

➢The Innerwear Category is one of the high growth categories in the apparel market and promises growth and innovation. The higher income, along with higher discretionary spending, growing fashion orientation of consumers and product innovations by the innerwear market have turned innerwear from a traditionally utilitarian item to an essential fashion requirement.

➢The growth of the innerwear category is primarily centred in urban India. The trend towards Western outfits, combined with the demand for occasion and outfit-based innerwear, is acting as a boost for the market. Demand for innerwear with higher functionality and greater comfort is rising fast. The market for innerwear product variations like seamless intimates, plus size inner wear, body shape enhancers, etc., is burgeoning both in the metros and mini-metros.

Men's innerwear Pyramid



Source: Industry & Arihant Capital Research

The market has historically been highly fragmented and unorganised. Even today it is dominated by numerous small-scale players that cater to ~60-65% of the total demand.

The listed players in this sector are Page, Dollar, Lux, Rupa and VIP clothing. The players have wide range of brands with different price points. However, the majority of the revenue comes from economy and mid-premium segment. Page via Jockey have been successfully positioned itself in the premium category and it has become the single largest brand across categories. Post Page success, many players have launched products in the super premium category but with limited success. In the home grown brands, Van Heusen has been able to gain traction in the last 4-5 years. Foreign brands like M&S, St Michael, Tommy Hilfiger, etc are servicing the super premium categories.

In the innerwear segment, due to lowest ticket size, the upgrading is easy. For instance, just by shelling out extra INR55-60 a piece, one can upgrade from economy to mid-premium segment.

As the segment is highly fragmented, a strong distribution channel, design & fit and product sourcing helps in demand shift from unorganized to organized. Players are focussing on product consistency, design and steady stream of new products to avoid losing a customer. Further, players are focussing on Athleisure segments, which will give them higher margin on a select products.

Men's innerwear market was at INR11bn in 2018 and is expected to grow at CAGR of 7% to INR218bn by 2028. The total innerwear market was valued at ¬INR320bn in 2018 and is expected to grow at a CAGR of ¬11% to INR897bn by 2028, led by rising incomes, high discretionary spending, rise in number of working women, fashion awareness and gender expanding portfolio.

India's female innerwear market to double to $11 bn by 2025

The women's innerwear market is considered to be more dynamic, with many design variation and the regular introduction of innovative products. Contrary to men's innerwear where a consumer comes across advertisements for several brands on a daily basis, brand promotion and advertising activities are comparatively lower in women's innerwear.

When it comes to price-wise segmentation, the women's innerwear market is dominated by products of the mid-price and economy segment. These segments together contribute 80% of the market, while the remaining 20% comes from the premium and super premium segments. Like men's innerwear, the mid-price and premium segments are expected to grow more rapidly within women's innerwear categories.

As per the report by consulting firm RedSeer, the female innerwear market will nearly double to $11-12bn by 2025 as incomes rise, more young women join the workforce and people become aware of better brands.

The category comprises lingerie, athleisure (loungewear and active wear) and ancillaries such as shapewear and swimwear. It is among the fastest growing category in apparel, according to the report. **The online female innerwear market will be around $1-1.2bn by 2025: a rise of nearly six times from 2020.**

Innerwear is evolving into 'casuals at home' or 'at-home smart clothing'. Athleisure and active wear are benefiting from people becoming fitness conscious, joining gyms and taking up activities like cycling. As per the report, the female innerwear market will grow in smaller cities will grow 1.5 times than in metropolises. In these cities, the major growth factors will be digital penetration and brand awareness. It is gaining from social media influence and online shopping.

Huge Entry Barriers

The industry has managed to create huge brands backed by big celebrity endorsement. For eg, Akshay Kumar endorses Dollar's Big Boss brand and Chitraganda Singh endorses Dollar's Missy brand. Varun Dhawan endorses Lux's Cozi brand, Amitabh Bachchan endorses Lux's Inferno and Venus brands, Virat Kohli endorses Lux's ONN brand. Ranveer Singh endorses Rupa's Frontline brand, Siddharth Malhotra endorses Rupa's Euro brand and Anushka Sharma endorses Rupa's Softline leggings.

As the sector is highly fragmented, it requires a lot of advertising which backs each segment in the industry. Thus, even though the product itself is easy, it is difficult for a new entrant to make a headway. The total ad spend of the three players put together would be at ~INR500cr.

Brand Positioning

Segments	Page	Dollar	Rupa	Lux	ABFRL	Arvind	Others
Luxury						Calvin Klein	
Super Premium		Pepe	One8	FCUK			
Premium	Jockey	Force, Nxt, Missy	FOL, Macroman M/W	ONN	Van Heusen	US Polo, Hanes	Levis, Jack & Jones
Mid-Premium		Dolla, Big Boss	Euro, Frontline	Lux Cozi			
Economy		Dollar Lehar	Jon	Lux Venus			

Source: Industry & Arihant Capital Research

Company Background

Dollar Industries Ltd (DIL) was established in 1972 by Dindayal Gupta as a proprietorship, the company was incorporated in 2005 as Bhawani Textiles, and then renamed as Dollar Industries in 2008. It began its journey with its signature brand "Dollar" in men's vests and briefs. Now, it has a wide range of men's, women's and kids' innerwear.

Dollar is amongst the large players in an otherwise fragmented innerwear market. Over the years, Dollar has built a strong portfolio of brands in the economy and mid-premium segment. After having established brands like Dollar Regular, Big Boss under the 'Dollar' umbrella, it is shifting focus towards premium segment by introducing new brands and entering into newer product categories for diversifying from being a predominantly Men's Innerwear company to a lifestyle brand catering to Men, Women and Kids segments.

The company is backward integrated and has manufacturing locations at Tirupur, Kolkatta, Delhi and Ludhiana with spinning capacity of 400 tonnes per month, knitting capacity of 300 tonnes per month, dyeing and bleaching capacity of 400 tonnes per month, cutting capacity of 3 lac pieces per day and elastic production capacity of 10 lakh metres per month.

The company has a strong distribution network of +1,000 distributors and +1.1 lakh Multi Brand Outlets (MBO) and has increased focus from conventional retail to large format stores, modern retail and e-commerce. As on FY21, it sold ¬18cr pieces of which 30-35% are made in-house and the rest are outsourced.

Geographical presence: DIL's operations are spread across India, with the northern region contributing a major chunk of the revenue, followed by eastern, western and southern regions. North contributes ¬43% of the revenue, East and West contribute ¬26% and ¬23%, respectively; the residual ¬8% comes from South. They are currently looking to expand their reach in the south region by increasing distributer's network.

Change in CFO: Mr Ankit Gupta has resigned as CFO and has been re-designated President (marketing) effective 10th Aug'21. Mr. Ajay Kumar Patodia has been appointed as the new CFO with effect from 10th Aug'21. Prior to joining Dollar he was associated with Lux Industries as CFO for the last 18 years.

Key Risks

❑ Aggressive investment by private label retailers in the innerwear category
❑ Increasing competitive intensity
❑ Reducing RoI for distributors/EBOs
❑Raw material price fluctuation risk partly mitigated by various backward integration initiatives
❑ Working capital intensiveness and deterioration in operating cycle
❑ Failure of launch of new products
❑ Inability to optimize the distribution channel
❑ A Covid 19 third wave can impose a lockdown and reduce mobility which can impact the earnings of the company

Income statement summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,029	967	1,037	1,190	1,373
Net Raw Materials	645	634	656	757	865
Advt & Promotion	211	186	211	238	275
Employee Cost	34	42	45	51	59
Other Expenses	215	186	198	208	242
EBITDA	**136**	**105**	**138**	**174**	**207**
EBITDA %	**13.2**	**10.8**	**13.3**	**14.6**	**15.1**
Depreciation	(11)	(14)	(15)	(23)	(31)
Interest expense	(16)	(15)	(9)	(7)	(6)
Other income	2	5	3	4	5
Share of profits associate & JV	(2)	(2)	(2)	(2)	(2)
Profit before tax	**109**	**78**	**115**	**147**	**174**
Taxes	(36)	(20)	(30)	(38)	(45)
Minorities	-	-	-	-	-
Reported Net profit	**74**	**57**	**85**	**109**	**129**
Other Comprehensive income	1	-1	0	0	0
Net profit	**74**	**57**	**86**	**109**	**129**
EPS	**13.1**	**10.0**	**15.1**	**19.1**	**22.8**

Balance sheet summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	11	11	11	11	11
Reserves	404	449	525	624	744
Net worth	**416**	**461**	**537**	**636**	**755**
Minority Interest	0	0	0	0	0
Debt	238	226	147	127	112
Other non-current liabilities	1	3	2	2	2
Deferred tax liab (net)	0	0	0	0	0
Total Liabilities	**655**	**690**	**686**	**765**	**869**
Fixed assets	70	69	79	121	162
Capital Work In Progress	2	14	15	16	22
Investments	0	0	0	0	0
Other non current assets	9	18	18	20	23
Inventories	325	305	334	368	389
Sundry debtors	348	360	331	347	382
Loans & Advances	1	1	1	1	1
Other current assets	30	42	47	54	63
Sundry creditors	(147)	(120)	(140)	(158)	(181)
Other current liabilities & Prov	(6)	(10)	(12)	(14)	(16)
Cash	22	6	7	3	18
Other Financial Assets	2	4	5	7	8
Total Assets	**655**	**690**	**686**	**765**	**869**

Ratio analysis

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	11.2	(6.0)	7.2	14.8	15.4
EBITDA growth	9.5	(22.9)	32.0	25.8	19.4
Net profit growth	(4.9)	(22.1)	48.8	27.3	18.8
Profitability ratios (%)					
RoCE	14.2	10.5	13.6	15.9	16.6
RoE	19.3	13.0	17.2	18.5	18.6
RoA	11.3	8.2	12.5	14.2	14.9
Per share ratios					
Dividend per share	1.6	1.7	1.7	1.7	1.7
Book value per share	73.3	81.3	94.6	112.1	133.1
Valuation ratios					
P/E	28.3	36.3	24.4	19.2	16.1
P/B	5.0	4.5	3.9	3.3	2.8
EV/EBIDTA	16.9	22.0	16.1	12.7	10.5
Liquidity ratios					
Debtor days	121.6	134.0	114.9	105.0	100.0
Inventory days	181.3	173.2	183.2	175.0	162.0
Creditor days	59.5	50.2	55.9	56.0	56.0

Source: Company & Arihant Capital Research

Cashflow summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	109	78	115	147	174
Depreciation	11	14	15	23	31
Tax paid	(36)	(20)	(30)	(38)	(45)
Working capital Δ	(97)	(28)	16	(37)	(39)
Change in Goodwill	-	-	-	-	-
Operating cashflow	**(13)**	**44**	**117**	**95**	**121**
Capital expenditure	(13)	(25)	(26)	(66)	(77)
Free cash flow	**(25)**	**19**	**91**	**28**	**44**
Equity raised	(0)	-	0	-	-
Investments	-	-	-	-	-
Others	(5)	(12)	(1)	(3)	(4)
Debt financing/disposal	42	(11)	(79)	(20)	(15)
Dividends paid	(11)	(12)	(10)	(10)	(10)
Other items	2	1	(0)	-	-
Net Δ in cash	**2**	**(15)**	**1**	**(4)**	**15**
Opening Cash Flow	**20**	**22**	**6**	**7**	**3**
Closing Cash Flow	**22**	**6**	**7**	**3**	**18**

Source: Company & Arihant Capital Research

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	
Building No. 10, 1st Floor	Arihant House
Andheri Ghatkopar Link Road	E-5 Ratlam Kothi
Chakala, Andheri (E)	Indore - 452003, (M.P.)
Mumbai – 400093	Tel: (91-731) 3016100
Tel: (91-22) 42254800	Fax: (91-731) 3016199
Fax: (91-22) 42254880	

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880