



<b>CMP</b>	<b>157</b>	<b>Rating</b>	<b>BUY</b>
<b>Target</b>	<b>216 (12m)</b>	<b>Upside</b>	<b>38%</b>

**Slowdown across categories:** Dollar Industries witnessed a flattish growth (+0.9% YoY) in topline to Rs 2.4bn on account of subdued demand leading to a volume decline of 14.1% YoY to 354mn pieces vs 412mn pieces on YoY basis. However, 5.2% YoY rise in ASP to Rs. 61 supported revenues.

**OPM contracts led by higher Rmat cost, however partially offset by other expense:** EBITDA during the qtr declined by 35.6% YoY to Rs.0.2bn, while OPM contracted by 533bps to 9.6%. This was on back of 1,029bps YoY rise in Rmat expense. However, a 567bps YoY decline in other expense arrested further contraction.

**PAT declined on back of weak operating performance:** PAT during the qtr declined by 30.0% YoY to Rs. 0.1 led by weak operating performance, higher Depreciation (+35.1% YoY to Rs 36.9mn) and Interest cost (+7.1% YoY to Rs 37.6mn). However, a lower tax rate (16.6% vs 35.3% YoY) curbed further de-growth.

STOCK DETAILS	
Bloomberg Code	DOLLAR:IN
Market Cap (Rs.bn)	8.9
Market Cap (USD bn)	0.1
Sector/Index	Apparels/S&P BSE SmallCap
52w High/Low	335/155
Avg Monthly Turnover (Rs. mn)	1.28
Shares in Issue (mn)	56.7
BSE Sensex	40,575
NSE Nifty	11,968

**About the company:** Dollar Industries Limited was promoted by Dindayal Gupta under the name Bhawani Textiles and now has created substantial presence in India under the Dollar umbrella. The company is present across segments in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, Footprints etc. Its brands are also exported in over 10 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal, and Sudan.

FINANCIALS				
Rs in bn	FY18	FY19	FY20E	FY21E
Revenue	9.3	10.3	10.5	11.5
EBITDA	1.2	1.4	1.1	1.4
EBITDA(%)	13.4	13.2	10.9	12.1
PAT	0.6	0.7	0.6	0.8
PAT(%)	6.9	7.2	6.0	7.0
EPS (Rs.)	11.5	13.0	11.2	14.3
P/E (x)	13.6	12.1	14.0	11.0

Source: Company, Annual Report, Indsec Research

Result (Rs.bn)	Q2FY20	Q2FY19	Q1FY20	Y/Y(%)	Q/Q(%)
Revenue	2.4	2.4	2.3	+0.9%	+4.1%
EBITDA	0.2	0.4	0.3	-35.6%	-13.6%
EBITDA(%)	9.6	14.9	11.6	-533bps	-197bps
PAT	0.1	0.2	0.1	-30.3%	+2.1%
PAT(%)	5.5	7.9	5.6	-239bps	-11bps
EPS	2.35	3.36	2.30	-30.3%	+2.1%

#### Key Takeaways:

**Brand wise contribution:** The revenue mix for the H1FY20 stood as follows: Bigboss-45%, Champion-1%, Force Go Wear-4%; Force NXT-2%; Missy-9%, Regulars-34% and thermal-5%. The total number of pieces sold during the qtr was ~354 mn vs ~412mn YoY.

**Raw material prices rise denting gross margins:** Gross margins during the qtr declined by 1029bps YoY to 50.4% vs.60.7% in Q2FY19 led by higher rmat price. As indicated by the management, margins got impacted as cotton and yarn prices moved up after June (however have now fallen) and higher cost raw material was consumed in Q2FY20.

**Working capital Cycle:** The high working capital days continued to strain on the company's cash flow generation. The company's efforts to convince distributors to obtain channel financing is yet to see results. The working capital days lengthened to 197 days in H1FY20 with debtor days at ~126 and inventory days at ~121. Creditor cycle is 50days.

#### Other Key Updates:

- The company is working with the distribution network to trim working capital cycle. It has been working with SBI as channel partner to finance debtors.

- ASP during the qtr rose by 5% YOY to Rs. 61. For H1FY20 ASP stood at ~Rs.59.

- Management expect H2 to be better in terms of sales, with strong thermal sales in Q3 coupled with plans of rolling out Force NXT across India in the coming qtrs.

#### Valuation and View:

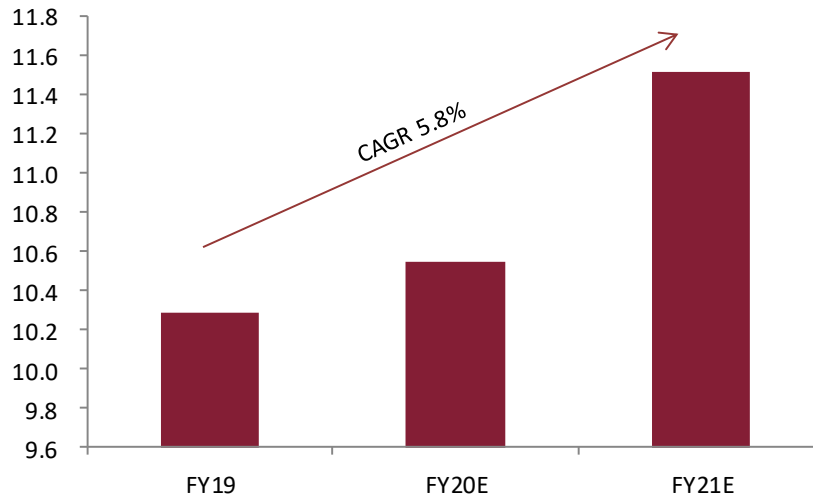
Dollar Industries' reported a weak performance for the qtr led by subdued demand leading to decline in volumes and higher raw material prices impacting gross margins. Further, working capital was strained due to distributor level liquidity crunch and reluctance to take up financing. However, the company has been working on remodeling its distribution channel with focus on distributors being the sole service provider to retailers. The company continues to focus on increasing its retail reach and consolidation of its brands which could help drive growth in the long term. However, efforts to improve working capital cycle has not yielded the expected results and could take a longer time period.

Given the muted performance and higher rmat prices in H1FY20, we have lowered our margin estimates by 290bps/200bps to 10.9%/12.1% for FY20E/FY21E.

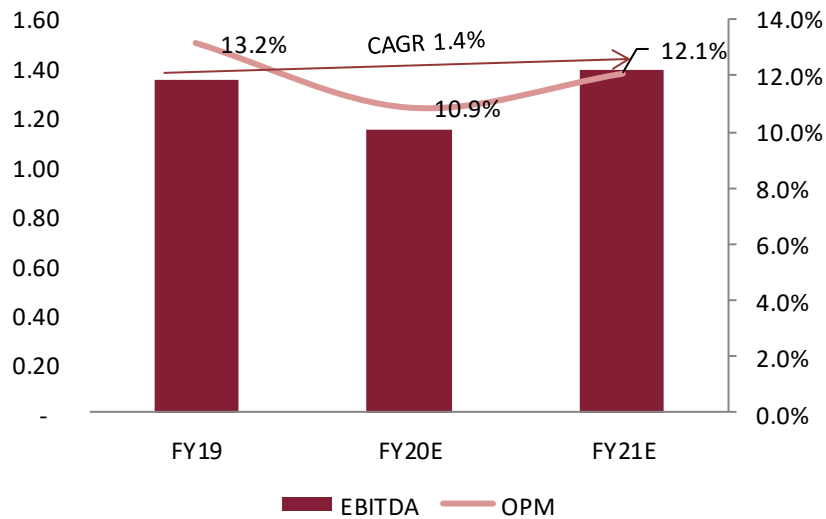
**We now expect a Revenue/EBITDA/PAT CAGR of 5.8%/1.4%/4.8% over FY19-FY21E. We have accounted for the change in tax rates in the estimations. At CMP of Rs 157, the stock is trading at 14.0x FY20E/11.0x FY21E on expected earnings of Rs 11.2/ Rs 14.3 respectively. Given the slowdown led by economic environment impacting offtakes and working capital cycle improvement not in line with expectations we reduce our PE multiple to 16x (vs 20x earlier) and assign it to our Dec'20 earnings of Rs.13.5, thus arriving at a target price of Rs 216, which implies an upside of 38% from current levels. We assign a Buy call on the stock.**

## Financial Snapshot

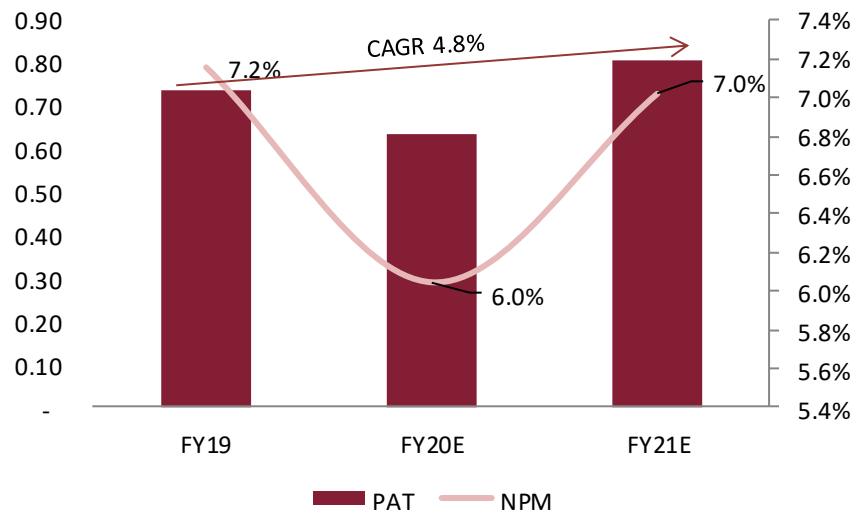
Revenue (Rs. in Bn.)



EBITDA (Rs. in Bn.) / OPM (in %)



PAT (Rs. in Bn.) / NPM (in %)



**SUMMARY INCOME STATEMENT**

<i>(in mn)</i>	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operations	8,217	8,861	9,256	10,288	10,543	11,521
Cost Of Revenues	3,574	3,916	4,059	4,335	4,787	5,012
<b>Gross Profit</b>	<b>4,643</b>	<b>4,945</b>	<b>5,196</b>	<b>5,952</b>	<b>5,757</b>	<b>6,509</b>
Employee Cost	100	218	264	336	443	518
Other Operating Expenses	3,886	3,728	3,693	4,259	4,165	4,597
<b>EBITDA</b>	<b>657</b>	<b>999</b>	<b>1,239</b>	<b>1,357</b>	<b>1,149</b>	<b>1,394</b>
Other Income	83	14	20	22	21	23
Net Interest Exp.	194	198	179	157	182	191
Depreciation	137	148	122	111	129	136
<b>PBT</b>	<b>409</b>	<b>668</b>	<b>958</b>	<b>1,110</b>	<b>858</b>	<b>1,090</b>
Tax	145	233	318	358	221	281
<b>Profit After Tax</b>	<b>264</b>	<b>435</b>	<b>640</b>	<b>753</b>	<b>637</b>	<b>809</b>
EPS	6.8	8.0	11.5	13.0	11.2	14.3

**SUMMARY BALANCE SHEET**

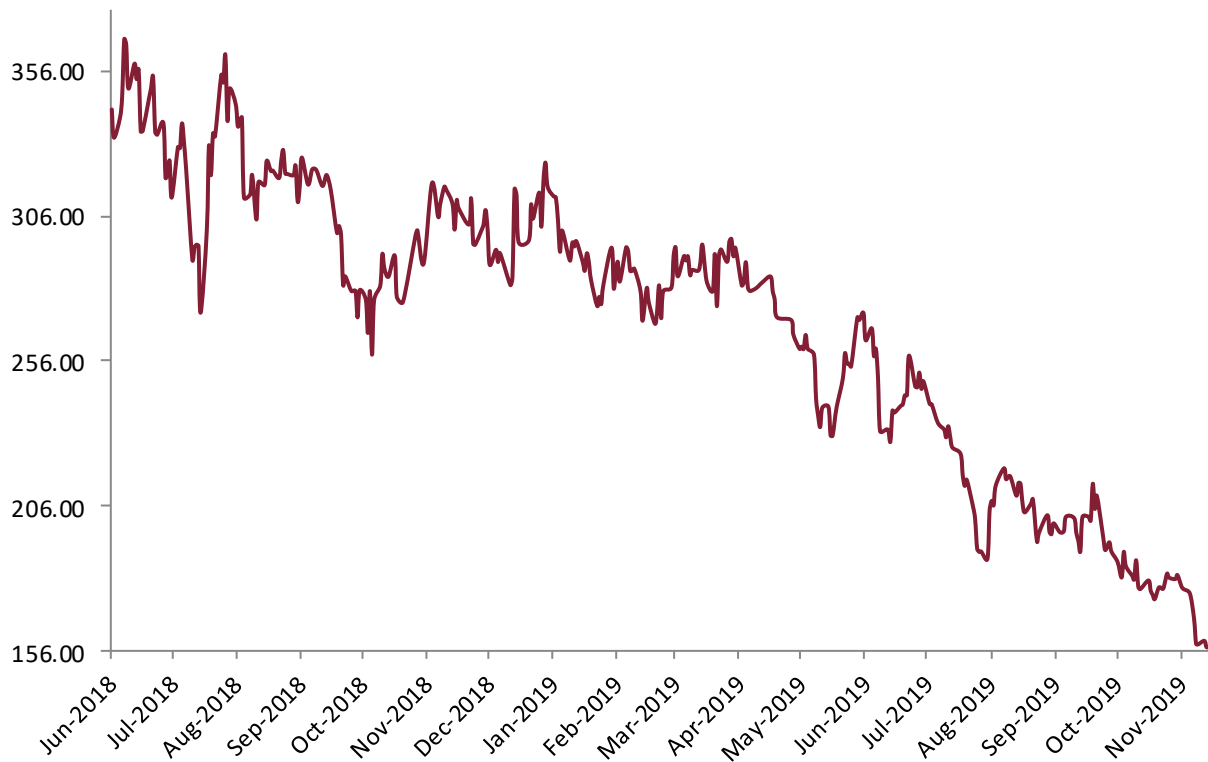
<i>(in mn)</i>	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Assets</b>						
Net Block	837	748	684	702	670	631
Capital WIP	6	0	21	20	20	20
Other Non current Assets	6	7	44	94	94	94
Long term loans and advances	53	18	6	6	7	8
<b>Current Assets</b>						
Inventories	2,084	2,049	2,829	3,246	3,495	3,725
Trade receivables	1,932	2,265	2,717	3,476	3,640	3,882
Cash and cash equivalents	104	97	196	215	334	610
Short-term loans and advances	146	132	7	2	3	4
Other Current Assets	3	1	227	318	318	318
<b>Total Current Assets</b>	<b>4,268</b>	<b>4,545</b>	<b>5,976</b>	<b>7,258</b>	<b>7,790</b>	<b>8,539</b>
<b>Current Liabilities &amp; Provisions</b>						
Short-term borrowings	1,501	1,389	1,250	2,077	2,177	2,277
Trade payables	1,018	934	1,127	1,475	1,444	1,452
Other current liabilities	482	255	353	314	314	314
Short-term provisions	64	154	1	0	0	0
Total Current Liabilities	1,563	1,343	1,481	1,790	1,759	1,767
<b>Net Current Assets</b>	<b>2,704</b>	<b>3,201</b>	<b>4,495</b>	<b>5,468</b>	<b>6,031</b>	<b>6,772</b>
<b>Total Assets</b>	<b>3,608</b>	<b>3,975</b>	<b>5,250</b>	<b>6,290</b>	<b>6,822</b>	<b>7,526</b>
<b>Liabilities</b>						
Share Capital	77	108	113	113	113	113
Reserves and Surplus	1,377	1,701	3,410	4,043	4,475	5,079
<b>Total Shareholders Funds</b>	<b>1,455</b>	<b>1,809</b>	<b>3,524</b>	<b>4,157</b>	<b>4,589</b>	<b>5,192</b>
<b>Total Debt</b>	<b>2,053</b>	<b>2,050</b>	<b>1,700</b>	<b>2,112</b>	<b>2,212</b>	<b>2,312</b>
Long Term Provisions	0	19	22	21	21	21
Other Long Term Liabilities	58	73	0	0	0	0
Net Deferred Tax Liability	41	23	4	1	1	1
<b>Total Liabilities</b>	<b>3,608</b>	<b>3,975</b>	<b>5,250</b>	<b>6,290</b>	<b>6,822</b>	<b>7,526</b>

\*Previous period figures have been restated wherever necessary to make them comparable.

<b>SUMMARY CASH FLOW STATEMENT</b>						
<i>(in mn)</i>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
PBT	409	667	954	1,110	858	1,090
Depreciation & Amort., Total	137	148	122	111	129	136
After other adjustments	190	202	192	157	182	191
(Inc) / Dec in Working Capital	-561	-540	-1,216	-924	-445	-467
Taxes	-99	-213	-359	-365	-221	-281
<b>Cash from Ops.</b>	<b>76</b>	<b>265</b>	<b>-308</b>	<b>90</b>	<b>503</b>	<b>669</b>
Capital Expenditure & investments	-120	-56	-108	-128	-97	-98
<b>Cash from Investing</b>	<b>-120</b>	<b>-56</b>	<b>-108</b>	<b>-128</b>	<b>-97</b>	<b>-98</b>
Issue of Share capital	0	0	1,075	0	0	0
Net Borrowings	251	-4	-319	412	100	100
Others	-194	-197	-179	-157	-182	-191
Issuance of Dividend	0	-14	-65	0	-205	-205
<b>Cash from Financing</b>	<b>57</b>	<b>-215</b>	<b>512</b>	<b>255</b>	<b>-287</b>	<b>-296</b>
Extraordinary receipts/payment	0	0	0	-195	0	0
<b>Net Change in Cash</b>	<b>13</b>	<b>-7</b>	<b>97</b>	<b>22</b>	<b>119</b>	<b>275</b>
BF Cash	91	104	97	194	215	334
<b>END Cash</b>	<b>104</b>	<b>97</b>	<b>194</b>	<b>215</b>	<b>334</b>	<b>610</b>

<b>SUMMARY RATIOS</b>						
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
<b><u>Profitability</u></b>						
Return on Assets	5.1%	8.2%	9.5%	9.1%	7.4%	8.7%
Return on Capital	17.2%	22.4%	21.8%	20.2%	15.3%	17.1%
Return on Equity	18.1%	24.0%	18.2%	18.1%	13.9%	15.6%
<b><u>Margin Analysis</u></b>						
Gross Margin	56.5%	55.8%	56.1%	57.9%	54.6%	56.5%
EBITDA Margin	8.0%	11.3%	13.4%	13.2%	10.9%	12.1%
Net Income Margin	3.2%	4.9%	6.9%	7.3%	6.0%	7.0%
<b><u>Short-Term Liquidity</u></b>						
Current Ratio	1.4x	1.7x	2.2x	1.9x	2.0x	2.1x
Quick Ratio	0.7x	0.9x	1.2x	1.0x	1.1x	1.2x
Avg. Days Sales Outstanding	84	86	98	110	126	123
Avg. Days Inventory Outstanding	73	85	96	108	121	118
Avg. Days Payables	40	40	41	46	50	46
<b><u>Long-Term Solvency</u></b>						
Total Debt / Equity	1.4x	1.1x	0.5x	0.5x	0.5x	0.4x
EBITDA / Interest Expense	3.1x	4.4x	6.4x	8.1x	5.7x	6.7x
<b><u>Valuation Ratios</u></b>						
EV/EBITDA	12.2x	10.5x	8.4x	8.0x	9.4x	7.6x
PER	23.1x	19.6x	13.6x	12.1x	14.0x	11.0x
P/B	4.2x	4.7x	2.5x	2.1x	1.9x	1.7x

\*Previous period figures have been restated wherever necessary to make them comparable.

**Stock Price movement from Initiation (25th Oct, 2017) to 21st November, 2019**

**Recommendation History**

Date	Closing Price	TP	Periods (in mts)	Rating	Analyst
21-Nov-19	157	216	12m	BUY	Ayush Jain
9-Aug-19	213	290	12m	BUY	Jimeet M. Shah, Kimberly Paes
21-Feb-19	270	363	12m	BUY	Jimeet M. Shah, Kimberly Paes
16-Nov-18	316	394	12m	BUY	Jimeet M. Shah, Kimberly Paes
20-Aug-18	324	428	12m	BUY	Jimeet M. Shah, Kimberly Paes
10-Jul-18	330	428	12m	BUY	Jimeet M. Shah, Kimberly Paes
21-Feb-18	423	545	12m	BUY	Rahul Dani
25-Oct-17	423	539	12m	BUY	Rahul Dani

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**BUY** : Expected total return of over 20% within the next 12-18 months.

**HOLD** : Expected total return between 0% to 20% within the next 12-18 months.

**SELL** : Expected total return is negative within the next 12-18 months.

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Indsec Securities & Finance Ltd, 301/302, "215 Atrium", "A" Wing, Andheri-Kurla Road, Chakala, Andheri (East), Mumbai - 400 093  
Telephone: +91 22 6114 6114 / 6114 6100, Fax: +91 22 6114 6180 / 86