

Dollar Industries Ltd (DOLLAR IN)

Higher RM and A&P exp dented Q1 margins

INDIA | SMALLCAP | RESULT UPDATE

12 August 2022

Top takeaways from Q1FY23:

- Company's Q1FY23 performance was better on topline, however, margins got impacted due to higher RM inflation and advertisement spend
- Volume up 54% on YoY basis due to low base, revenue was up 76.6% yoy to Rs 3.6bn and exported contributed 8% to total revenue which grew 36% yoy. JV biz grew 175% on yoy basis. The company generates 7-8% of total revenue from South India.
- Operating profit was up 5.7% yoy to Rs 0.37bn whereas EBITDA margin declined to 10.3% v/s 17.3% yoy.
- During the quarter, the company incurred ads spend of Rs 0.35bn v/s Rs 0.15bn yoy led by one time spend towards IPL 2022 Team Sponsorship, new TVC for Dollar Woman and marketing campaign for 50 years of the company.
- PAT up 20% yoy basis to Rs 0.27bn led by lower tax expense and higher other income.

Major Conference call update:

- During the quarter, the company's revenue from premium/mid-premium/economy segment stood at 11%/51%38% respectively.
- The company witnessed 49%/65%/95% growth in Dollar Man/Dollar Woman/Athelisure wear category. The athelisure wear revenue stood at 14% of total sales.
- The company has launched Dollar Woman Brassiere in 3 states which includes UP, Bihar and Jharkhand and further plans to expand product basket by launching newer category like Dollar Woman sportswear as well as Athelisure Wear.
- The company target to achieve Rs 2-2.5bn revenue from women's wear category by FY25 and this will increase revenue contribution from current 9% to 11-11.5%.
- FY23 outlook:** the company reiterates to grow 9-10% on volume terms and 15-17% on value term and aspire to achieve 16.5%-17% EBITDA margin in challenging environment.
- A&P spend:** The company guides to incur A&P spend of 5-5.5% of sales in FY23.
- Working capital scenario:** The company target to reduce working capital cycle by 10 days in FY23 from 154 days in FY22 of which 6-7 days reduction will be from receivable side and 3-4 days reduction from inventory side.
- Channel financing:** As on Q1FY23, total 160 dealers are on boarded for channel financing scheme and aims to add several more dealers going ahead.
- Project Lakshya update:** During Q1FY23, company added 32 distributors and plans to add 150-200 distributors in FY23. The company has started implementing Project Lakshya in states like Bihar, Odisha, Haryana etc and plans to completely cover states of Rajasthan, Karnataka, Gujarat, Eastern Maharashtra by rest of the year.

Outlook and view:

With focus approach through project Lakshya, the company is gaining incremental market share which is aiding to overall growth. However, volatile raw material scenario is a key near term risk which would impact margins in short term. To factor in lower Q1 margins, we cut EPS forecast for FY23E & FY24E by 14.5%/6% respectively.

We remain long term positive on the company due to factors like 1) Target to increase the retail universe to 3-4 lakhs (from 1.3 lakhs currently) in next four year, 2) Introduction of new product categories and 3) Focus on tightening working capital cycle. At current price of Rs.440 the stock is trading at 13.4x FY24E EPS of Rs. We recommend a buy with revised price target of Rs. 589 (18x FY24E EPS), implying a 34% upside from current level.

Key Consolidate financials (Rs Mns):

Year	Net sales	EBITDA	PAT	EPS	P/E	EV/EBITDA	P/BV	ROE	ROCE
FY21	10371	1383	855	15.1	15.2	10.3	2.4	12.5%	13.5%
FY22	13503	2198	1471	26.0	21.1	15.2	4.7	15.9%	18.6%
FY23E	15634	2200	1454	25.7	17.1	11.3	3.1	21.9%	23.2%
FY24E	17639	2738	1851	32.8	13.4	8.7	2.6	18.2%	21.9%

BUY

CMP Rs 439

TARGET Rs 589(+34%)

COMPANY DATA

O/S SHARES (MN) :	56.7
MARKET CAP (RS BN) :	2492.7
MARKET CAP (USD MN) :	311.5
52 - WK HI/LO (RS) :	666/325
TRADING VOL. 3M (000) :	117.4
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

PROMOTERS :	72.91
FII / FPI :	0.48
DII/MF :	1.69
Corp Bodies:	0.00
PUBLIC & OTHERS :	24.91

As on June 2022

PRICE Vs. SENSEX



Source: Phillip Capital India Research

Apurva Shah (+ 9122 66551296)
ashah@phillipcapital.in

Dhiral Shah (+ 9122 66551412)
dshah@phillipcapital.in

Quarterly Financial snapshot

Particulars	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Remarks
Net Sales	2046.0	3907.0	3821.0	3730.0	3614.0	volume grew 54% yoy on low base
Yoy Growth	28.0%	52.1%	22.4%	21.0%	76.6%	
Total Expenditure						
RM Consumption	775.0	1790.0	1867.0	1713.0	1793.0	
Subcontract cost	461.0	766.0	643.0	818.0	597.0	
Employee Cost	128.0	154.0	170.0	187.0	185.0	
Other Expenses	329.0	548.0	498.0	458.0	667.0	Adspend risen to Rs 350mn v/s Rs 146mn
Total Expenditure	1693.0	3258.0	3178.0	3176.0	3242.0	
PBIDT (Excl OI)	353.0	649.0	643.0	554.0	372.0	
Other Income	9.0	3.0	15.0	38.0	26.0	
Depreciation	38.0	40.0	42.0	45.0	43.0	
EBIT	324.0	612.0	616.0	547.0	355.0	
Interest	14.0	17.0	20.0	46.0	30.0	
Add: Share of Profit/Loss	-6.0	-6.0	-0.5	-7.0	-9.0	
PBT	304.0	589.0	595.5	494.0	316.0	
Tax	79.0	151.0	152.0	129.0	47.0	
Profit After Tax	225.0	438.0	443.5	365.0	269.0	
Yoy Growth	43.8%	86.4%	57.1%	89.1%	19.6%	
Equity Capital	110.0	110.0	110.0	110.0	110.0	
Face Value (In Rs)	2.0	2.0	2.0	2.0	2.0	
No of shares	57.0	57.0	57.0	57.0	57.0	
EPS	3.9	7.7	7.8	6.4	4.7	
Effective Tax Rate	26.0%	25.6%	25.5%	26.1%	14.9%	

Source: Company, Phillip Capital.

Consolidate financial

Income Statement

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E
Net sales	10371	13503	15634	17639
Growth %	7.2%	30.2%	15.8%	12.8%
Raw Material Cost	4453	6146	7375	8113
Subcontracting cost	2108	2687	3117	3491
Employee costs	446	640	736	846
Other expense	1981	1832	2206	2451
EBITDA	1383	2198	2200	2738
Growth %	32.0%	58.9%	0.1%	24.5%
EBIDTA margin (%)	13.3%	16.3%	14.1%	15.5%
Depreciation	155	166	189	214
EBIT	1228	2032	2011	2523
Interest	88	96	90	77
Other income	35	65	62	69
Share of JV	-20	-19	-17	-14
PBT	1155	1982	1965	2502
Less: Taxation	300	511	511	650
Effective tax rate (%)	26.0%	25.8%	26.0%	26.0%
Recurring PAT	855	1471	1454	1851
Growth %	48.4%	72.0%	-1.1%	27.3%
PAT margin (%)	8.2%	10.9%	9.3%	10.5%
Wtd. Avg. Shares (Mn)	57	57	57	57

Balance Sheet

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E
Equity capital	113	113	113	113
Reserves	5254	6597	7880	9561
Net worth	5367	6710	7993	9674
Non Current Liabilities	95	111	112	121
Current Liabilities	2910	4287	3720	3605
Total liabilities	8372	11108	11825	13400
Net block	788	813	1348	1363
CWIP	147	496	0	0
Right of use asset	64	93	124	154
Investments	6	6	3	3
Others	141	285	336	422
Current assets				
Inventories	3339	4752	3865	4083
Debtors	3309	4021	4069	4349
Cash	73	5	1339	2189
Loans & Advances	4	0	0	0
Other Current assets	501	640	742	836
Total assets	8372	11111	11826	13399

Source: Company, Phillip Capital

Cash Flow

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E
PBT	1155	1982	1965	2502
Depreciation	155	166	189	214
Tax paid	300	511	511	650
Change in WC/other adjustment	645	883	-171	708
Cash Flow from Operating activities	1655	754	1814	1358
Capital Expenditure	250	581	290	309
Change in Investments	0	-3	0	0
Others	4	132	20	37
Cash Flow from Investing activities	254	710	310	346
Change in Equity	-96	-128	-171	-171
Change in Debt	-10	-16	-7	0
Others	6	8	8	9
Cash Flow from Financing activities	-100	-136	-170	-162

Valuation Ratios

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E
EPS	15.1	26.0	25.7	32.8
Book NAV / Share	94	118	140	170
DPS	2.4	3.0	3.0	3.0

Growth Ratios

Net Sales (%)	7.2%	30.2%	15.8%	12.8%
EBIDTA (%)	32.0%	58.9%	0.1%	24.5%
PAT (%)	8.2%	10.9%	9.3%	10.5%

Return Ratios

ROA (%)	10.2%	13.2%	12.3%	13.8%
ROE (%)	15.9%	21.9%	18.2%	19.1%
ROCE (%)	18.6%	23.2%	21.9%	23.7%

Turnover Ratios

Asset Turnover (x)	1.2	1.2	1.3	1.3
Fixed asset turnover (x)	7.4	8.7	6.9	7.2
Receivable Days	120	99	95	90
Inventory Days	112	109	105	100
Payable Days	46	54	54	50

Liquidity Ratios

Current Ratio (x)	2.5	2.2	2.7	3.2
Interest Cover (x)	14.0	21.2	22.2	32.9
Total Debt / Equity (x)	0.2	0.3	0.1	0.1

Valuation Ratios

PER (x)	15.2	21.1	17.1	13.4
Price / Book (x)	2.4	4.7	3.1	2.6
Price / Sales (x)	1.3	2.3	1.6	1.4
EV / Sales (x)	1.4	2.5	1.6	1.4
EV / EBIDTA (x)	10.3	15.2	11.3	8.7

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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