

Q1FY23 Update | Textile | 11 August 2022

# Dollar Industries Ltd.

**Growth pillars in place driven by project Lakshya**

*Dollar Industries Ltd (DIL), reported revenue in Q1FY23 grew by ~76.7% YoY which was led by a volume growth of ~54% YoY & rest of the growth was on account of increase in average selling price due to price hikes taken by the company in order to pass on increase in cost of raw materials. Management has guided for a topline growth of ~15%-17% YoY for FY23e. DIL is working with Vector Consultants to implement Theory of constraints (TOC), in an attempt to keep a tab on its working capital mainly by reducing receivables and inventories. Company has enrolled ~174 distributors upto Q1FY23 under the project Lakshya and target to bring ~70% of its distributor under project Lakshya by FY25. Company has also on-boarded ~160 distributors under channel financing. Going forward, management has maintained its goal to reach sales of ~Rs 20 billion by FY25. On its profitable growth trajectory, we are upbeat on DIL's long-term growth prospects on the back of its strong brand equity, initiatives to reduce working capital days and long-standing operations in innerwear industry. We remain positive on the company's mid-to long term potential and thus maintain our 'Buy' rating on the stock with a target price to Rs 713 (20x FY24e EPS).*

## Q1FY23 Earnings Highlights

- In Q1FY23, the company reported a ~76.7% YoY increase in sales to Rs 3,614 mn, which was led by a healthy volume increase of ~54% YoY. Growth in volumes was mainly led by company's flagship brands Dollar Man and Dollar Always.
- Gross margin for Q1FY23 declined by ~573 bps YoY at 33.9%. Decline in gross margin was due to increase in raw material cost, which company was not able to fully pass on to the customers. However gross margin improved by ~173 bps QoQ.
- EBITDA margin for Q1FY23 declined by ~697 bps YoY at 10.3%. Decline in EBITDA margins was mainly led by decline in gross margin. Advertisement expenditure for Q1FY23 was at 9.7% vs 7.2% YoY of sales.
- Company reported PAT of Rs 270 mn up ~19.6% YoY helped by a lower tax rate of 14.3% vs 25.6% YoY. PAT Margin was at 7.5% vs 11% YoY.

## Outlook and Valuation:

- DIL's strong brand recall coupled with deeper penetration and consumers shifting towards affordable branded quality products are strong macro tailwinds for the company. Currently the innerwear industry is witnessing a structural shift from unorganised to the organised sector. We expect DIL to benefit from this trend.
- At the current price the stock is trading at 12.4x FY24e EPS. We have valued the stock at 20x FY24e EPS of Rs 35.7, to arrive at a target price of Rs 713, which provides an upside of ~61% based on the current market price.

Y/E Mar (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Net sales	3,614	2,046	76.7%	3,730	-3.1%
Operating costs	3,242	1,692	91.6%	3,176	2.1%
EBITDA	372	353	5.3%	554	-32.8%
EBITDA Margin (%)	10.3%	17.3%	(697)Bps	14.8%	(455)Bps
Depreciation	43	38	10.9%	45	-5.1%
Interest	30	14	118.7%	46	-35.6%
Other income	26	9	179.1%	38	-32.6%
PBT	325	311	4.8%	500	-35.0%
Provision for tax	47	79	-41.3%	129	-64.0%
Effective tax rate (%)	14.3%	25.6%		25.8%	
PAT (Reported)	270	225	19.6%	364	-26.0%
NPM (%)	7.5%	11.0%	(356)Bps	9.8%	(231)Bps

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	9,671	-6.0%	1,046	10.8%	573	-22.1%	10.1	13.5%	13.7%	43.9	26.0
FY21	10,370	7.2%	1,381	13.3%	853	48.8%	15.0	17.3%	18.3%	29.5	19.1
FY22	13,503	30.2%	2,198	16.3%	1,471	72.4%	25.9	24.5%	26.3%	17.1	12.4
FY23e	15,548	15.1%	2,425	15.6%	1,656	12.6%	29.2	22.4%	24.9%	15.2	10.8
FY24e	17,620	13.3%	2,872	16.3%	2,023	22.2%	35.7	22.6%	27.7%	12.4	8.7

Source: Company, SMIFS Research



Rating: Buy Upside: 61%  
Current Price: 444 Target Price: 713

### Earlier recommendation

Previous Rating: Buy  
Previous Target Price: 759

### Market data

Bloomberg: DOLLAR IN  
52-week H/L (Rs): 666/325  
Mcap (Rs bn/USD bn): 25.2/0.32  
Shares outstanding (mn): 56.7  
Free float: 27.09%  
Avg. daily vol. 3mth (in '000): 150.60  
Face Value (Rs): 2  
Group: BSE SmallCap  
Source: Bloomberg, SMIFS Research

### Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	72.91	72.91	72.91	72.91
FIIs	0.48	0.30	0.20	0.13
DIIIs	1.69	1.69	1.69	1.68
Public/Other	24.92	25.10	25.19	25.27

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE SmallCap	7.3%	9.0%	7.6%	119%
Dollar	3.9%	-9.8%	22.9%	106.6%

\*as on 10<sup>th</sup> August 2022; Source: AceEquity, SMIFS research

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## Q1FY23 – Key takeaways from the management call

### Guidance:

- ✓ Management has guided for a topline growth of ~15-17% in FY23.
- ✓ Management has maintained its goal to reach sales of Rs 20 bn by FY25.

### Q1FY23 – Highlights:

- ✓ In Q1FY23 company reported a volume growth of ~54% YoY.
- ✓ In Q1FY23 revenue contribution from different segment- economy-38%, mid-premium-50%, premium-12%
- ✓ Company has taken a price increase of ~4.5% in April 2022. **Further due to recent correction in cotton prices from the peak company does not plan to take any further price increase in the short term.**
- ✓ Revenue contribution by category for Q1FY23: Dollar Man-47%, Dollar Always-40%, Dollar Women-9%, Force Next-3%, Force Gowear-1%
- ✓ Breakup of revenue for Q1FY23 geography wise: North-44%, West-21%, East-26%, South-9%.
- ✓ Share of revenue from Modern Retail was ~4%, target is to increase to ~8% by FY25.
- ✓ Currently company is exporting to ~15+ countries and export mix was ~8% of revenue in Q1FY23, **target is to increase export markets and increase share of exports to ~11% of revenue by FY25.**
- ✓ In Q1FY23 contribution of athleisure wear was ~14% of sales, **management expect strong growth in the athleisure wear segment to continue going forward.**
- ✓ In Q1FY23 company incurred advertisement expenditure of Rs 350 mn ie ~9.7% of sales as compared to Rs 146 mn ie ~7.2% of sales in Q1FY22. **Company plans to have advertisement expenditure of ~5.5% of sales in FY23 & FY24.**
- ✓ Advertisement expenditure in Q1FY23 was mainly on sponsoring IPL 2022 (non-recurring), launch of new TVC for Dollar Woman and the campaign for completion of 50 glorious year of Dollar Industries Ltd. **Management is confident that this advertisement expenditure would give benefit over the next 2 to 3 quarters.**
- ✓ In Q4FY22 company had launched the brassiere range of products under Dollar Woman brand in states of Uttar Pradesh and East India (Bihar, Jharkhand, Orissa, West Bengal), For which the **initial response has been good** from the market.
- ✓ Company has signed actress Yami Gautam as the brand ambassador for Dollar Women segment.

### Capex:

- ✓ The company has earlier announced a total estimated capex of Rs 1150-1200 mn spread across FY21-FY23. Upcoming capex includes (1) increasing the spinning capacity from 22,000 to 42,000 spindles (estimated capex of Rs 600-650 mn). (2) Investment towards setting up a 3.5 lac sq ft integrated warehouse in Kolkata (estimated capex of Rs 500 mn). **Capex would be largely funded by its internal accruals.** Management expects commissioning of spinning capacity & integrated warehouse in October 2022 and November 2022 respectively.

### EBOs:

- ✓ Company has opened two EBO's, one each in Alwar, Rajasthan and New Delhi. Company plans to open ~25-30 EBO's in the region of Uttar Pradesh and Rajasthan by FY23 end. Further it targets to have ~125 EBO's by FY25.

### Channel Financing:

- ✓ Company has enrolled ~160 distributors under channel financing at the end of Q1FY23. **Company targets to bring ~60% of its distributors under channel financing by FY25.**

### Project Lakshya Updates:

- ✓ In Q1FY23 company has added ~32 distributors and now has enrolled a total of ~172 distributors under this project. **Company targets to have ~70% of its distributors under**

**project Lakshya by end of FY25.** In Q1FY23 ~14% of domestic revenue contribution was from distributor under Lakshya.

- ✓ Company will now start mapping of retail network in two new state of Bihar & Orissa.

**Working Capital:**

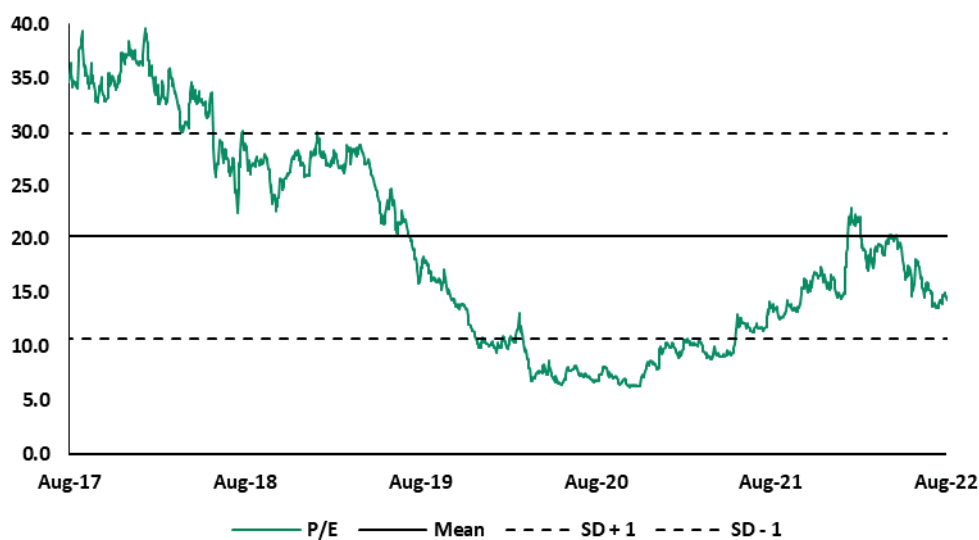
- ✓ In Q1FY23 company has improved its net working capital days by ~47 days YoY to ~172 days. However, it has increased by ~18 days as compared to Q4FY22 mainly due to increase in inventory days led by increase in procurement of winter products as the demand for it would start from Q2FY23. **Going forward company plans to improve working capital led by project lakshya and channel financing.**

**Outlook and Valuation**

- ✓ DIL's strong brand recall coupled with deeper penetration and consumers shifting towards affordable branded quality products are strong macro tailwinds for the company.
- ✓ Currently the innerwear industry is witnessing a structural shift from unorganised to the organised sector. We expect DIL to benefit from this trend.
- ✓ At the current price stock is trading at 12.4x FY24e EPS. We have valued the stock at 20x on FY24e EPS of Rs 35.7, to arrive at a target price of Rs 713, **which provides an upside of ~61% based on the current market price.**

**Key risks** are (1) Volatile raw material prices (2) Competition from both organised & un-organised players (3) Any increase in GST rates (4) Delay in implementation of project Lakshya

**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS Institutional research

## Quarterly financials, operating metrics and key performance indicators

### Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Sales</b>	<b>2,574</b>	<b>3,118</b>	<b>3,083</b>	<b>2,046</b>	<b>3,907</b>	<b>3,821</b>	<b>3,730</b>	<b>3,614</b>
COGS	1,590	1,994	2,008	1,235	2,557	2,510	2,531	2,390
<b>Gross Profit</b>	<b>984</b>	<b>1,124</b>	<b>1,075</b>	<b>810</b>	<b>1,350</b>	<b>1,310</b>	<b>1,199</b>	<b>1,225</b>
Employee Costs	109	120	137	128	155	170	187	185
Other Expenditure	524	573	627	329	548	498	458	667
<b>EBITDA</b>	<b>351</b>	<b>432</b>	<b>311</b>	<b>353</b>	<b>648</b>	<b>643</b>	<b>554</b>	<b>372</b>
Depreciation	35	38	49	38	40	42	45	43
Interest	23	18	13	14	17	20	46	30
Other Income	5	6	21	9	3	15	38	26
Exceptional Items	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>299</b>	<b>383</b>	<b>271</b>	<b>311</b>	<b>594</b>	<b>596</b>	<b>500</b>	<b>325</b>
Tax	76	99	70	79	151	152	129	47
Tax rate (%)	25.3%	25.8%	25.8%	25.6%	25.4%	25.5%	25.8%	14.3%
<b>Reported PAT</b>	<b>220</b>	<b>278</b>	<b>194</b>	<b>225</b>	<b>438</b>	<b>444</b>	<b>364</b>	<b>270</b>
<b>YoY Growth (%)</b>								
<i>Revenue</i>	5.8%	22.4%	29.7%	28.3%	51.8%	22.5%	21.0%	76.7%
<i>EBITDA</i>	50.8%	29.6%	48.3%	23.3%	84.3%	49.0%	77.9%	5.3%
<i>PAT</i>	65.5%	47.5%	58.8%	39.3%	98.7%	59.7%	88.3%	19.6%
<b>QoQ Growth (%)</b>								
<i>Revenue</i>	61.4%	21.1%	-1.1%	-33.6%	91.0%	-2.2%	-2.4%	-3.1%
<i>EBITDA</i>	22.6%	22.8%	-27.9%	13.5%	83.3%	-0.7%	-13.9%	-32.8%
<i>Adj. PAT</i>	36.0%	26.1%	-30.3%	16.5%	94.1%	1.4%	-17.8%	-26.0%
<b>Margin (%)</b>								
<i>Gross margin (%)</i>	38.2%	36.1%	34.9%	39.6%	34.5%	34.3%	32.1%	33.9%
<i>EBITDA margin (%)</i>	13.7%	13.8%	10.1%	17.3%	16.6%	16.8%	14.8%	10.3%
<i>PAT margin (%)</i>	8.6%	8.9%	6.3%	11.0%	11.2%	11.6%	9.8%	7.5%

Source: Company, SMIFS research estimates

## Financial Statements (Consolidated)

Income Statement					
March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>9,671</b>	<b>10,370</b>	<b>13,503</b>	<b>15,548</b>	<b>17,620</b>
COGS	6,340	6,561	8,834	10,262	11,576
% of sales	65.6%	63.3%	65.4%	66.0%	65.7%
<b>Gross Profit</b>	<b>3,331</b>	<b>3,809</b>	<b>4,670</b>	<b>5,286</b>	<b>6,044</b>
Employee Expenditure	421	446	640	731	775
% of sales	4.4%	4.3%	4.7%	4.7%	4.4%
Other Exp.	1864	1982	1832	2130	2396
% of sales	19.3%	19.1%	13.6%	13.7%	13.6%
<b>EBITDA</b>	<b>1,046</b>	<b>1,381</b>	<b>2,198</b>	<b>2,425</b>	<b>2,872</b>
EBITDA Margin (%)	10.8%	13.3%	16.3%	15.6%	16.3%
Depreciation & Amortisation	142	155	166	199	213
<b>EBIT</b>	<b>904</b>	<b>1,226</b>	<b>2,032</b>	<b>2,227</b>	<b>2,659</b>
Interest Expenses	153	88	96	79	19
<b>EBT</b>	<b>751</b>	<b>1,138</b>	<b>1,936</b>	<b>2,148</b>	<b>2,639</b>
Other Income	47	35	65	78	79
<b>PBT</b>	<b>798</b>	<b>1,173</b>	<b>2,001</b>	<b>2,225</b>	<b>2,719</b>
Tax-Total	203	300	512	570	696
Effective tax rate (%)	25.5%	25.6%	25.6%	25.6%	25.6%
Extraord. items - Adj.	0	0	0	0	0
<b>Reported PAT</b>	<b>573</b>	<b>853</b>	<b>1471</b>	<b>1656</b>	<b>2023</b>

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of funds</b>					
Capital	113	113	113	113	113
Reserves & Surplus	4536	5315	6597	7980	9663
<b>Shareholders' Funds</b>	<b>4,649</b>	<b>5,428</b>	<b>6,710</b>	<b>8,094</b>	<b>9,776</b>
Total Debt	2100	1240	2057	1057	257
<b>Total Liabilities</b>	<b>6,749</b>	<b>6,668</b>	<b>8,798</b>	<b>9,202</b>	<b>10,085</b>
<b>Application of funds</b>					
Net Block	689	788	813	1,797	1,885
Capital WIP	141	135	496	135	135
Non-current Asset	259	211	325	364	370
<b>Net Fixed Assets</b>	<b>1,088</b>	<b>1,134</b>	<b>1,634</b>	<b>2,296</b>	<b>2,389</b>
Inventories	3050	3339	4752	4515	4827
Sundry Debtors	3601	3309	4021	4047	4345
Other Current Assets	438	505	646	737	800
Cash & Bank Balances	62	73	5	72	444
<b>Total Current Assets</b>	<b>7,150</b>	<b>7,227</b>	<b>9,424</b>	<b>9,371</b>	<b>10,416</b>
Creditors	1,203	1,395	1,761	1,917	2,172
Other Current Liabilities	245	327	438	487	488
Provisions	40	53	61	61	61
<b>Total Current Liabilities</b>	<b>1,489</b>	<b>1,775</b>	<b>2,260</b>	<b>2,464</b>	<b>2,721</b>
<b>Net Current Assets</b>	<b>5,661</b>	<b>5,452</b>	<b>7,164</b>	<b>6,906</b>	<b>7,695</b>
<b>Total assets</b>	<b>6,749</b>	<b>6,668</b>	<b>8,798</b>	<b>9,202</b>	<b>10,085</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Growth ratios (%)</b>					
Net sales	-6.0%	7.2%	30.2%	15.1%	13.3%
EBITDA	-22.9%	32.0%	59.2%	10.4%	18.4%
Reported PAT	-22.1%	48.8%	72.4%	12.6%	22.2%
<b>Margin Ratio (%)</b>					
Gross Margin	34.4%	36.7%	34.6%	34.0%	34.3%
EBITDA Margin	10.8%	13.3%	16.3%	15.6%	16.3%
EBIT Margin	9.3%	11.8%	15.0%	14.3%	15.1%
PBT Margin	8.3%	11.3%	14.8%	14.3%	15.4%
PAT Margin	5.9%	8.2%	10.9%	10.6%	11.5%
<b>Return Ratio (%)</b>					
ROE	13.5%	17.3%	24.5%	22.4%	22.6%
ROCE	13.7%	18.3%	26.3%	24.9%	27.7%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	11.7	11.2	10.3	8.0	8.7
Inventory Period	115	118	109	106	100
Debtors Period	136	116	99	95	90
Creditors	45	49	43	45	45
Cash Conversion Cycle	206	185	166	156	145
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.5	0.2	0.3	0.1	0.0
Net Debt-equity (x)	0.4	0.2	0.3	0.1	0.0
Liquidity ratio (x)	2.0	2.5	2.2	2.7	3.5
Interest coverage ratio (x)	5.9	14.0	21.1	28.1	138.1
<b>Per share (Rs)</b>					
Adjusted EPS	10.1	15.0	25.9	29.2	35.7
CEPS	12.6	17.8	28.9	32.7	39.4
Book value	82.0	95.7	118.3	142.7	172.4
Dividend per share	1.7	3.0	3.0	4.0	5.0
Dividend Payout (%)	17%	20%	12%	14%	14%
Dividend Yield (%)	0.4%	0.7%	0.7%	0.9%	1.1%
<b>Valuation</b>					
P/E	43.9	29.5	17.1	15.2	12.4
P/BV	5.4	4.6	3.8	3.1	2.6
EV/EBITDA	26.0	19.1	12.4	10.8	8.7
Market Cap/Sales	2.6	2.4	1.9	1.6	1.4

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Operating profit before WC changes</b>					
Net change in working capital	-338	186	-1831	286	-423
Income tax paid (net)	-246	-299	-446	-570	-696
<b>Cash flow from operating activities (a)</b>	<b>529</b>	<b>1324</b>	<b>3</b>	<b>2219</b>	<b>1833</b>
Capital expenditure	-225	-228	-576	-800	-300
Free Cash Flow	304	1096	-571	1419	1533
<b>Cash flow from investing activities (b)</b>	<b>-251</b>	<b>-219</b>	<b>-619</b>	<b>-801</b>	<b>-301</b>
<b>Cash flow from financing activities (c)</b>	<b>-426</b>	<b>-1094</b>	<b>547</b>	<b>-1351</b>	<b>-1160</b>
Net change in cash (a+b+c)	-148	11	-68	67	372
Opening cash balance	207	59	70	2	69
<b>Ending cash balance</b>	<b>59</b>	<b>70</b>	<b>2</b>	<b>69</b>	<b>441</b>

Source: Company, SMIFS Research Estimates

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