

Dollar Industries Ltd.

Growth pillars in place driven by project Lakshya

Dollar Industries Ltd (DIL), reported better than expected performance in Q1FY24 on the EBITDA and PAT front. In Q1FY24 company reported volume growth of ~4% YoY, led by increased sales volume in the economy segment of ~11% YoY. Economy segment volumes increased supported by celebrity brand endorsement for its economy brand Dollar Always. Gross margins improved on QoQ basis led by stability in raw material prices. As company has already consumed all the high cost raw materials, with stable raw material prices management is confident to sustain and improve gross margins from current levels. Since the raw material prices have now stabilized in a range company does not expect any further inventory related loss in FY24e.

There has also been improvement visible in the sentiments of both distribution as well as retail channel & thus management has guided of a topline growth of ~12%-13% YoY (volume growth of ~13%-14%) in FY24e with EBITDA margin in the range of ~11%-12%. New product launches like Dollar Protect Rainguard, Force Nxt Activewear and Women's Athleisure wear has received good initial response from the market and management expect to get incremental sales from these products. We expect performance of the company to further improve from Q2FY24 onwards due to stability in raw material prices and better demand traction. We remain positive on the company's mid-to long term potential and thus maintain our 'Buy' rating on the stock.

Q1FY24 Earnings Highlights

- In Q1FY24, company reported sales declined by ~9.2% YoY, volumes growth of ~4% YoY. Average selling price declined by ~15% YoY.
- Gross margin in Q1FY24 improved by ~781 bps QoQ to 32.3% due stability in raw material prices and there was no impact of inventory loss, but declined by ~158 bps YoY.
- EBITDA margin in Q1FY24 declined to 8.3% vs 10.3% YoY. EBITDA margins were impacted mainly due to lower gross margin.
- PAT for Q1FY24 declined by ~46% YoY to Rs 145 mn. Tax rate was higher at ~20.9% vs 14.3% YoY.

Project Lakshya on track

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 ~249 distributors upto Q1FY24 (addition of ~20 distributors QoQ in Q1FY24) under the project Lakshya and target to bring ~70% of its distributors under project Lakshya by FY25.** Company has also on-boarded ~280 distributors (added ~10 distributors QoQ in Q1FY24) under channel financing by the end of Q1FY24. In Q1FY24 contribution of sales from distributors under project Lakshya increased to ~27% of domestic sales from ~19% in FY23.

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.
- We have valued the stock at 20x FY25e EPS of Rs 23.8, to arrive at a target price of Rs 477 per share and maintain our "Buy" rating.**

Y/E Mar (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	Q1FY24e	Var. (%)
Net sales	3,282	3,617	-9.2%	4,064	-19.2%	3,470	-5%
Operating costs	3,011	3,244	-7.2%	3,951	-23.8%		
EBITDA	271	372	-27.2%	113	139.9%	226	20%
EBITDA Margin (%)	8.3%	10.3%	(203)Bps	2.8%	548 Bps	6.5%	
Depreciation	42	43	-1.7%	43	-2.0%		
Interest	35	30	16.3%	34	2.2%		
Other income	7	26	-73.9%	13	-46.8%		
PBT	201	325	-38.1%	49	311.6%		
Provision for tax	42	47	-9.6%	15	182.6%		
Effective tax rate (%)	20.9%	14.3%		30.5%			
Reported PAT	145	270	-46.1%	6	2539.2%	132	10%
PAT Margin (%)	4.4%	7.5%	(303)Bps	0.1%	429 Bps	3.8%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	10,370	7.2%	1,381	13.3%	853	48.8%	15.0	17.3%	13.6%	11.2	7.8
FY22	13,425	29.5%	2,198	16.4%	1,471	72.4%	25.9	24.5%	19.6%	15.7	11.4
FY23	13,938	3.8%	982	7.0%	524	-64.3%	9.2	8.4%	7.5%	48.9	27.7
FY24e	15,388	10.4%	1,723	11.2%	1,061	102.3%	18.7	14.4%	12.6%	21.9	14.1
FY25e	17,234	12.0%	2,085	12.1%	1,352	27.4%	23.8	16.1%	14.6%	17.2	11.4

Source: Company, SMIFS Institutional Research Estimates



Rating: Buy **Upside: 16%**
Current Price: 410 **Target Price: 477**

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 465

Market data

Bloomberg: DOLLAR IN
 52-week H/L (Rs): 547/311
 Mcap (Rs bn/USD bn): 23.25/0.28
 Shares outstanding (mn): 56.7
 Free float: 27.09%
 Avg. daily vol. 3mth (in '000): 141.95
 Face Value (Rs): 2

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	73.1	73.1	72.9	72.9
FIIs	0.5	0.4	0.4	0.5
DIIIs	0.5	2.3	2.3	2.1
Public/Other	25.9	24.2	24.4	24.5

Promoters Pledging (%)

Pledge: 0 0 0 0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-0.1	6.2	10.0	71.6
Nifty 500	1.3	8.9	11.7	81.5
Dollar	9.2	11.5	-6.6	215.4

*as on 11th, August 2023; Source: AceEquity, SMIFS research

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Q1FY24 – Key takeaways from the management call

Guidance:

- ✓ Management has guided for a topline growth of ~11%-12% YoY (volume growth of ~13%-14%) and EBITDA margin in the range of ~11%-12% for FY24e.

Q1FY24 – Highlights:

- ✓ In Q1FY24 company reported a **volume growth of ~4% YoY and average selling price (ASP) decline of ~15% YoY. There was a decline in ASP as company has passed on the benefit of lower raw material prices.**
- ✓ Volume growth was led by higher sales from economy brands where volume grew by ~11% YoY. Volume growth in the economy segment was supported by **celebrity brand endorsement for its economy brand Dollar Always.**
- ✓ In Q1FY24 volume growth in premium segment was ~52% YoY led by new product launches, management of confident of good volume growth in the premium segment going forward.
- ✓ Gross Margins in Q1FY24 improved significantly due to stability in raw material prices and absence of any inventory related loss. Now since the raw material prices are stable **management expect to sustain and further improve** from the current levels of gross margins.
- ✓ In Q1FY24 company launched Dollar Protect Rainguard which received positive response from the market are **contributed ~2.8% of domestic sales.** Company has the target to increase sales of this product by 3x in FY25. Company has done in-flim branding to promote the product.
- ✓ In Q1FY24 company has started supplies of active wear products under the brand Force NXT and women athleisure wear which has received good intital response from the consumers.
- ✓ Cotton prices are now in the range of ~Rs 55,000 to Rs 60,000/candy, management does not expect any significant movement in cotton prices. Yarn prices are now stable and expect yarn prices to be stable at the current levels.
- ✓ **Company has taken a price cut of ~15% over a period from Q1FY23 to now in-order to pass on the decline in cotton yarn prices. Company has not taken any price cut in Q1FY24 and further does not plan to take any price cut in Q2FY24.**
- ✓ In Q1FY24 company has conducted dealer conference for the sale of thermal wear products for which it has received very good order bookings. Confident of good growth in thermal wear products in FY24.
- ✓ Revenue contribution by category for Q1FY24: Dollar Man ~40.4%, Dollar Always ~42.4%, Dollar Women ~9.9%, Force Next-4%, Dollar Protect-2.8%, Others-0.5%
- ✓ **Athleisure range of products contributed to ~13% of sales in Q1FY24. Company has launched women athleisure wear range of products and on the back of this launch expect good growth in this segment.**
- ✓ Breakup of revenue for Q1FY24 geography wise: North-45%, West-23%, East-23%, South-9%. Share of business has increased from South India.
- ✓ In Q1FY24 company incurred advertisement expenditure of Rs 265 mn ie ~8.1% of sales as compared to Rs 348 mn ie ~9.6% YoY. **Company plans to have advertisement expenditure of ~6%-6.5% of sales in FY24.**
- ✓ Board has approved expansion of solar power by 6 MW for a **capex of ~Rs 350 mn** (approx.) for captive use of power in backward integration and reduction of carbon footprint. This will be completed over next one year.
- ✓ The capex for the new integrated warehouse and expansion of spinning capacity is already incurred. Expect to start operations in the new warehouse in the next 1-2 months and spinning plant to start by end of Q4FY24.

EBOs:

- ✓ Company has opened 17 EBO's till now and **targets to have ~125 EBO's by FY25.**

Channel Financing:

- ✓ Efforts towards channel financing for the distributors continued to witness good traction. Company has enrolled ~280 distributors under channel financing till Q1FY24. **Company targets to bring ~60% of its distributors under channel financing by FY25.**

Project Lakshya Updates:

- ✓ Project Lakshya has been going as per plan of the company and is on the way towards expanding number of distributors, reach and range of the products. In FY23 company has added ~87 distributors and ~20 distributors in Q1FY24 and now has enrolled a total of ~249 distributors under this project. **Company targets to have ~70% of its distributors under project Lakshya by end of FY25. In Q1FY24 revenue contribution from distributor under Lakshya project increased to ~27% from ~19% of domestic sales in FY23.**
- ✓ **Company expect to end FY24 with ~300-325 distributors under project Lakshya.**
- ✓ In Q1FY24 company reported volume growth ~13% YoY from distributor under Lakshya project.
- ✓ **Company has now started mapping of retail network in Tamil Nadu and Kerala.**

Working Capital:

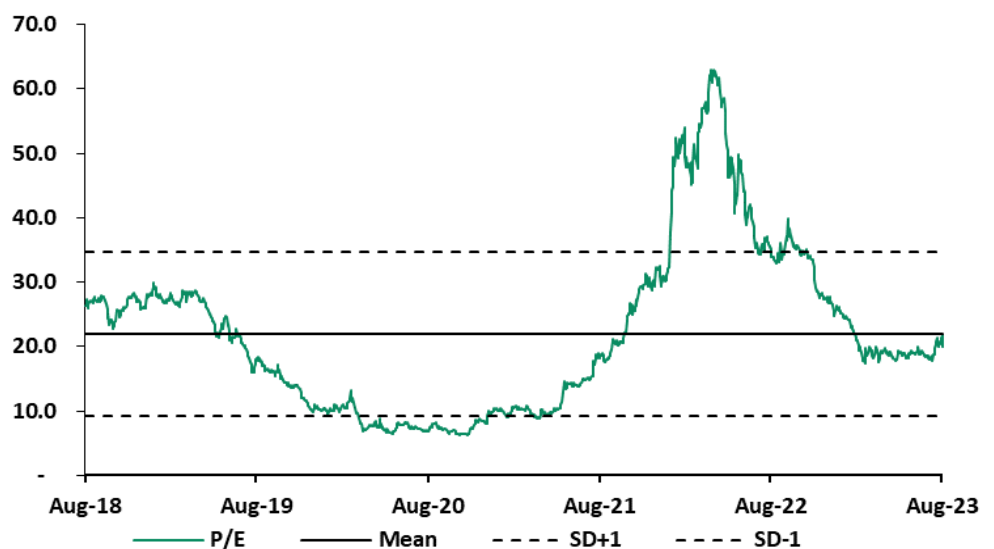
- ✓ Going forward company plans to improve the net working capital days further led by project lakshya and channel financing.

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.
- ✓ **We have valued the stock at 20x FY25e EPS of Rs 23.8, to arrive at a target price of Rs 477 per share and maintain our "Buy" rating.**

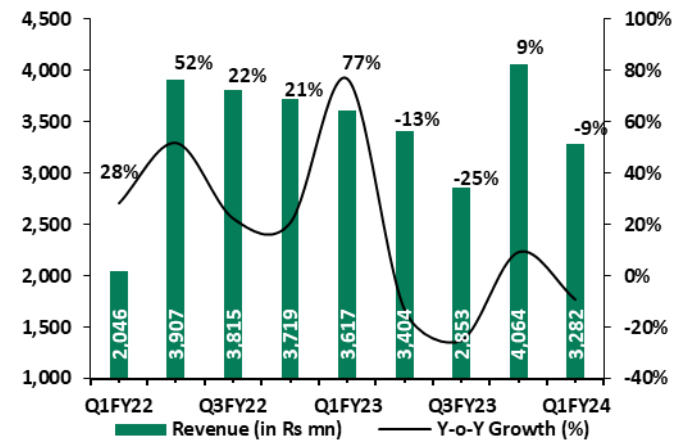
Key risks are (1) Volatile raw material prices (2) Competition from both organised & unorganised players (3) Any increase in GST rates (4) Delay in implementation of project Lakshya.

Fig 1: 1-year forward P/E



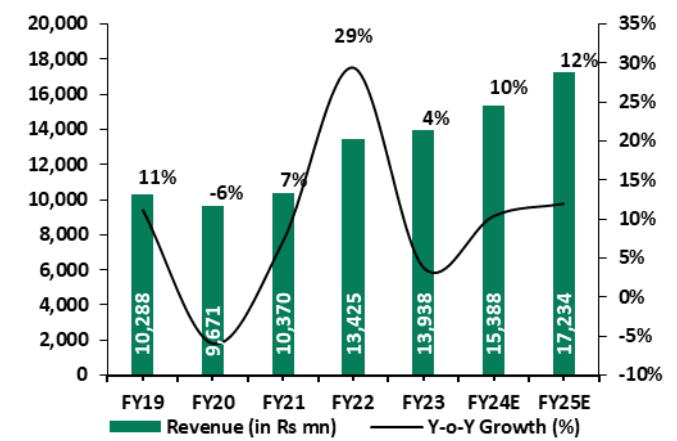
Source: Company, SMIFS Institutional Research Estimates

Fig 2: Revenues (Quarterly)



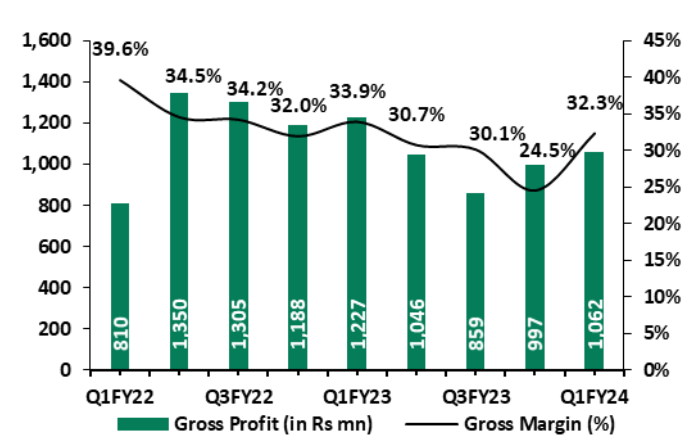
Source: Company, SMIFS Research

Fig 3: Revenues (Yearly)



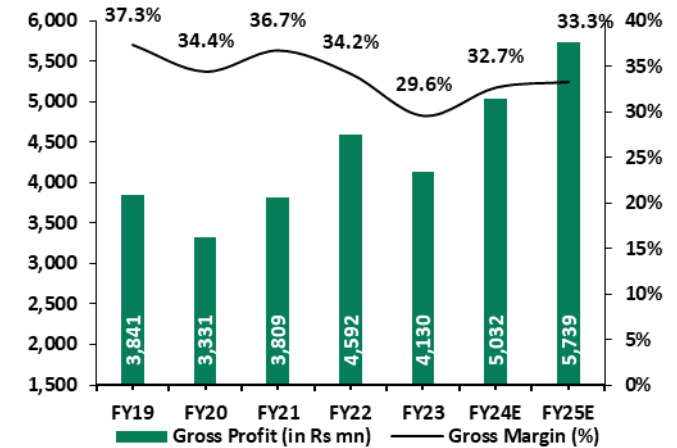
Source: Company, SMIFS Research

Fig 4: Gross Profit (Quarterly)



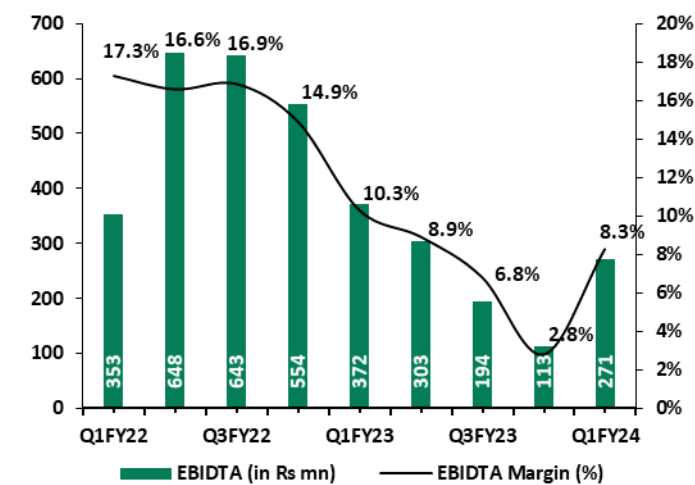
Source: Company, SMIFS Research

Fig 5: Gross Profit (Yearly)



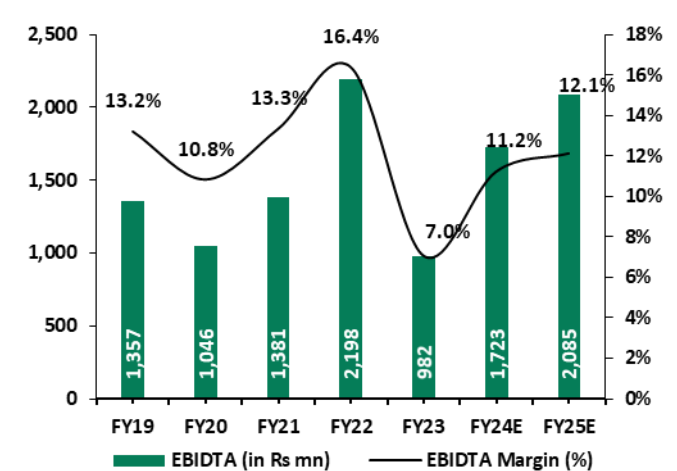
Source: Company, SMIFS Research

Fig 6: EBITDA & Margin (Quarterly)



Source: Company, SMIFS Research

Fig 7: EBITDA & Margin (Yearly)



Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 8: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Sales	3,907	3,815	3,719	3,617	3,404	2,853	4,064	3,282
COGS	2,557	2,510	2,531	2,390	2,358	1,994	3,067	2,221
Employee Costs	155	170	187	185	185	189	210	211
Other Expenditure	548	492	447	669	558	476	674	579
EBITDA	648	643	554	372	303	194	113	271
Depreciation	40	42	45	43	43	48	43	42
Interest	17	20	46	30	39	40	34	35
Other Income	3	15	38	26	4	6	13	7
PBT	594	596	500	325	225	112	49	201
Tax	151	152	129	47	46	25	15	42
Tax rate (%)	25.4%	25.5%	25.8%	14.3%	20.2%	22.0%	30.5%	20.9%
Reported PAT	443	444	371	279	180	87	34	159
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	-6	-1	-7	-9	-7	-10	-28	-14
Adjusted PAT	438	444	364	270	173	77	6	145
YoY Growth (%)								
Revenue	51.8%	22.4%	20.6%	76.8%	-12.9%	-25.2%	9.3%	-9.2%
EBITDA	84.3%	49.0%	77.9%	5.3%	-53.2%	-69.8%	-79.6%	-27.2%
PAT	98.7%	59.7%	88.3%	19.6%	-60.5%	-82.6%	-98.5%	-46.1%
QoQ Growth (%)								
Revenue	91.0%	-2.4%	-2.5%	-2.8%	-5.9%	-16.2%	42.4%	-19.2%
EBITDA	83.3%	-0.7%	-13.9%	-32.8%	-18.5%	-36.0%	-41.8%	139.9%
Adj. PAT	94.1%	1.4%	-17.8%	-26.0%	-35.9%	-55.2%	-92.9%	2539.2%
Margin (%)								
Gross margin (%)	34.5%	34.2%	32.0%	33.9%	30.7%	30.1%	24.5%	32.3%
Employee cost/ revenue (%)	4.0%	4.4%	5.0%	5.1%	5.4%	6.6%	5.2%	6.4%
Other expenses/revenue (%)	14.0%	12.9%	12.0%	18.5%	16.4%	16.7%	16.6%	17.7%
EBITDA margin (%)	16.6%	16.9%	14.9%	10.3%	8.9%	6.8%	2.8%	8.3%
PAT margin (%)	11.3%	11.6%	10.0%	7.7%	5.3%	3.1%	0.8%	4.8%

Source: Company, SMIFS Institutional Research Estimates

Fig 9: Change in estimates

Rs mn	New Estimates		Old Estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	15,388	17,234	15,388	17,234	0%	0%
Gross profit	5,032	5,739	5,001	5,687	1%	1%
Gross margin (%)	32.7%	33.3%	32.5%	33.0%	20 Bps	30 Bps
EBITDA	1,723	2,085	1,693	2,034	2%	3%
EBITDA margin (%)	11.2%	12.1%	11.0%	11.8%	20 Bps	30 Bps
PAT	1,061	1,352	1,043	1,319	2%	2%
EPS (Rs)	19	24	18	23		

Source: Company, SMIFS research estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,370	13,425	13,938	15,388	17,234
COGS	6,561	8,834	9,809	10,387	11,547
% of sales	63.3%	65.8%	70.4%	67.5%	67.0%
Employee Expenditure	446	640	769	831	896
% of sales	4.3%	4.8%	5.5%	5.4%	5.2%
Other Exp.	1982	1754	2378	2477	2758
% of sales	19.1%	13.1%	17.1%	16.1%	16.0%
EBITDA	1,381	2,198	982	1,693	2,034
Other Income	35	65	47	46	52
Depreciation & Amortisation	155	166	176	211	224
EBIT	1,261	2,097	854	1,528	1,862
Interest Expenses	88	96	142	98	89
Core PBT	1,138	1,936	664	1,383	1,721
PBT	1,173	2,001	711	1,429	1,772
Tax	300	512	132	366	454
Tax Rate (%)	25.6%	25.6%	18.5%	25.6%	25.6%
Extraord. Items	0	0	0	0	0
Reported PAT	873	1490	580	1064	1319
Share of profit/ (loss) in JV	-20	-19	-55	-20	0
Adjusted PAT	853	1471	524	1044	1319

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23	FY24e	FY25e
Growth ratios (%)					
Net sales	7.2%	29.5%	3.8%	10.4%	12.0%
EBITDA	32.0%	59.2%	-55.3%	75.4%	21.0%
Adjusted PAT	48.8%	72.4%	-64.3%	102.3%	27.4%
Margin Ratio (%)					
Gross Profit	36.7%	34.2%	29.6%	32.7%	33.3%
EBITDA	13.3%	16.4%	7.0%	11.2%	12.1%
EBIT	11.8%	15.1%	5.8%	9.8%	10.8%
Core PBT	11.0%	14.4%	4.8%	9.1%	10.2%
Adj. PAT	8.2%	11.0%	3.8%	6.9%	7.8%
Return Ratio (%)					
ROE	17.3%	24.5%	8.4%	14.4%	16.1%
ROCE	13.6%	19.6%	7.5%	12.6%	14.6%
Turnover Ratio days (days)					
Gross Block Turnover (x)	7.3	8.7	8.1	5.2	5.3
Adj OCF / PAT (%)	145	-6	232	114	91
Inventory	118	110	109	100	95
Debtors	116	100	109	100	95
Creditors	49	43	41	45	45
Cash Conversion Cycle	185	167	177	155	145
Solvency Ratio (%)					
Debt-equity	0.2	0.3	0.2	0.1	0.1
Net Debt-equity	0.2	0.3	0.2	0.1	0.1
Gross Debt/EBITDA	0.9	0.9	1.6	0.6	0.5
Current ratio	2.5	2.2	2.4	2.6	2.8
Interest coverage ratio (x)	14.0	21.1	5.7	15.3	20.7
Dividend					
DPS (Rs)	3.0	3.0	3.0	4.0	5.0
Dividend Payout (%)	20%	12%	32%	21%	21%
Dividend Yield (%)	1.8%	0.7%	0.7%	1.0%	1.2%
Per share (Rs)					
EPS (Reported)	15.0	25.9	9.2	18.7	23.8
Adj. EPS	15.0	25.9	9.2	18.7	23.8
CEPS	17.8	28.9	12.4	22.6	27.9
BV	95.7	118.3	125.0	139.3	157.5
Valuation					
P/E	11.2	15.7	48.9	21.9	17.2
P/BV	1.8	3.4	3.6	2.9	2.6
EV/EBITDA	7.8	11.4	27.7	14.1	11.4
EV/Sales	1.0	1.9	2.0	1.6	1.4
Adj M.Cap /Core PBT	8.4	11.9	38.6	16.5	12.9
Adj M.Cap /Adj OCF	7.7	-249.0	21.0	19.2	18.4

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23	FY24e	FY25e
Sources of funds					
Capital	113	113	113	113	113
Reserves & Surplus	5233	6628	6974	7785	8820
Shareholders' Funds	5,346	6,741	7,149	7,967	9,007
Total Debt	1240	2057	1616	1116	1016
Other non-current liabilities	72	98	99	99	99
Total Liabilities	6,659	8,896	8,864	9,182	10,122
Application of funds					
Net Block	788	813	832	1863	1933
Capital WIP	135	496	848	71	98
Investments	6	3	1	15	17
Non-current Asset	205	322	564	509	512
Inventories	3339	4752	3576	4216	4486
Sundry Debtors	3309	4021	4283	4216	4486
Other Current Assets	505	646	677	699	765
Cash & Bank Balances	73	5	14	49	544
Total Current Assets	7,227	9,424	8,551	9,179	10,280
Sundry Creditors	1,395	1,761	1,375	1,897	2,125
Other Current Liabilities	307	401	557	558	594
Total Current Liabilities	1,702	2,162	1,932	2,455	2,719
Net Current Assets	5,524	7,262	6,619	6,725	7,561
Total assets	6,659	8,896	8,864	9,182	10,122

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Operating profit before WC changes	1437	2281	1056	1770	2137
Net change in working capital	186	-1831	586	-92	-348
Income tax paid	-299	-446	-282	-372	-465
Cash flow from operating activities (a)	1324	3	1359	1306	1324
Adjusted OCF	1236	-93	1217	1207	1235
Capital expenditure	-228	-576	-554	-400	-300
Adjusted Free Cash Flow	1096	-571	814	906	1024
Cash flow from investing activities (b)	-219	-619	-576	-400	-300
Debt Issuance (repayment)	-864	816	-443	-500	-100
Interest & Lease expenses	-139	-133	-189	-98	-89
Dividend Paid	-91	-136	-170	-272	-340
Cash flow from financing activities (c)	-1094	547	-785	-870	-530
Net change in cash (a+b+c)	11	-68	-2	35	495

Source: Company, SMIFS Institutional Research Estimates

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