

# Dollar Industries Ltd.

## Robust topline growth; Outlook positive

Dollar Industries Ltd (DIL), delivered a strong all-round performance in Q2FY22, with revenue up by ~52% YoY backed by volumes growth of ~21% YoY (+16% in H1FY22). 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 entered into an agreement with a large private sector bank for channel financing with an aim to reduce overall receivables. Going forward, the management has guided for a revenue growth of ~15-16% in FY22, with an expected EBITDA margin of 15-16% in FY22. 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. We remain positive on the company's mid-to long term potential and maintain our 'Buy' rating on the stock with a target price to Rs 595 (20x FY23e EPS), on strong Q2FY22 results, management growth initiatives which provides confidence of robust growth momentum ahead.

### Strong quarterly performance

- In Q2FY22, the company reported a ~51.8% YoY increase in sales to Rs 3907 mn, driven by ~21% YoY volume growth and the balance was on account of price increase and better product mix. Missy and Force next reported a ~40% YoY increase in sales, while thermal also saw good traction during the quarter.
- Gross margin for Q2FY22 declined by 369 bps YoY to 34.5%. Company did not take price hikes in Q2FY22, however the company remains open to taking on a price hike in the month of December.
- EBITDA margin for Q2FY22 increased by 293 bps YoY to 16.6%, majorly on account of lower other expenditure and higher operating leverage. Q2FY22 EBITDA increased by 84.3% YoY to 647.7 mn.
- PAT grew 98% YoY to Rs 438 mn, driven by a higher top-line growth and better operating performance. Interest cost declined by 27.2% YoY to Rs 16.5 mn and depreciation expense increased by 15.7% YoY to Rs 40.2 mn.

### Restructuring distribution model with project "Lakshya"

- Company is currently working with Vector Consultants to implement Theory of constraints (TOC), in an attempt to improve its working capital mainly by reducing receivables and inventories. DIL initiated this project to replace its existing inventory push model.
- Company started appointing distributors in regions where it previously had none or negligible reach. Company has successfully implemented this project across five states, namely: Karnataka, Rajasthan, Gujarat, Maharashtra and Telangana. Encouraged by the success of the model in these states, company plan on implementing this in 10 more states in FY22.

### 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. 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.
- At the current price of Rs 464, the stock is trading at 16x FY23e EPS. We have assigned a P/E multiple of 20x on FY23e EPS of Rs 29.7, to arrive at a target price of Rs 595, which provides an upside of 28% based on the current market price.

Y/E Mar (Rs mn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)
Net sales	3,907	2,574	51.8%	2,046	91.0%
Operating costs	3,259	2,223	46.6%	1,692	92.6%
EBITDA	648	351	84.3%	353	83.3%
EBITDA Margin (%)	16.6%	13.7%	293 Bps	17.3%	(69)Bps
Depreciation	40	35	15.7%	38	5.0%
Interest	17	23	-27.2%	14	20.8%
Other income	3	5	-37.9%	9	-63.7%
Provision for tax	151	76	99.6%	79	90.1%
Effective tax rate (%)	25.4%	25.3%	13 Bps	25.6%	(17)Bps
PAT (Reported)	438	220	98.7%	225	94.1%
NPM (%)	11%	9%	265 Bps	11.0%	18 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)
FY19	10,288	11.2%	1,357	13.2%	753	17.6%	13.3	18.0%	21.2%	34.9	20.9
FY20	9,671	-6.0%	1,046	10.8%	595	-21.0%	10.5	12.8%	13.7%	44.2	27.1
FY21	10,370	7.2%	1,381	13.3%	873	46.8%	15.4	16.1%	18.3%	30.1	19.9
FY22e	13,054	25.9%	2,146	16.4%	1,420	62.7%	25.0	21.2%	26.7%	18.5	12.8
FY23e	15,041	15.2%	2,482	16.5%	1,687	18.8%	29.7	20.8%	26.8%	15.6	10.8



Rating: **Buy** Upside: **28%**  
 Current Price: **464** Target Price: **595**

### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 469

### Market data

Bloomberg:	DOLLAR.IN
52-week H/L (Rs):	463/134
Mcap (Rs bn/USD mn):	26/351
Shares outstanding (mn):	56.7
Free float:	27.00%
Avg. daily vol. 3mth	256.5
Face Value (Rs):	2
Group:	BSE 500

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	72.91%	72.91%	72.91%	72.91%
FII's	0.13%	0.0%	0.0%	0.0%
DII's	1.69%	3.39%	3.75%	3.39%
Public/others	25.27%	23.70%	23.34%	23.70%

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE 500	1.9	11.8	59.9	74.8
DIL	23.0	31.4	241.2	56.6

\*as on 1st Nov 2021; Source: BSE, SMIFS research

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## Q2FY22 – Key takeaways from the management call

### Q2FY22 – Quick Highlights-

- In Q2FY22, company witnessed significant green shoots in demand due to the lifting of lockdown restrictions in most states and resumption in the supply chain. In addition, company is benefitting from a structural shift of consumer preferences in the use of innerwear products from unorganised to the organised sector.

### Guidance-

- Company posted a 42.8% YoY increase in sales in H1FY22 but it has maintained its earlier guidance of 15-16% YoY growth in sales in FY22 as (1) raw material availability is a big concern for the industry (2) Government is expected to increase the GST rate for hosiery products (3) concern of the 3<sup>rd</sup> COVID wave.

### Capex-

- The company has announced a total estimated capex of Rs 1150-1200 mn over the next 2-3 years. Upcoming capex includes (1) doubling the production capacity of its spinning unit (estimated capex of Rs 600-650 mn). (2) setting up a socks unit in Delhi and company is also expected to set 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.

### EBOs-

- Company inaugurated its first EBO in October 2021 at Ayodhya, Uttar Pradesh on a FOFO (Franchisee Owned Franchisee Operated) model. Furthermore, it will look to open 8-10 stores in FY22 across Uttar Pradesh and Rajasthan initially.

### Channel Financing-

- Company currently has a total 1000 distributors. In September end, company has entered into an agreement with a large private sector bank for channel financing with an aim to reduce overall receivables. Company expects to cover its entire distributors under its channel financing scheme over the next 2-3 years. Company will first start to enrol Lakshya distributors under this arrangement as it has a high bargaining power with them.
- Channel financing will come at a cost as it has to incentivise its distributors in the initial phase. Over time, company needs to increase its product prices, currently it has a price gap of 2-3% over its peer.
- As per the management, if it is able to bring 80% of its distributors under the channel financing scheme than overall debtor would be reduced by 60-70%. Under this mechanism, once a distributor is billed company will get the payment immediately.

### Project Lakshya Updates-

- At the end of Q2FY22, company has enrolled 91 distributors under this project. Furthermore, company is expected to add 125-150 distributors by end of FY22.
- Company has mapped 1.5 lac estimated outlets under this project and it has enrolled 42,451 of the mapped outlets.
- Company currently has 150-200 active outlets per distributor. Company is expected to expand its penetration to cover 50% of its distributors under Project Lakshya by FY24.

### Working Capital-

- The management indicated a net working capital days of 120 days by FY24-25.

## Outlook and Valuations

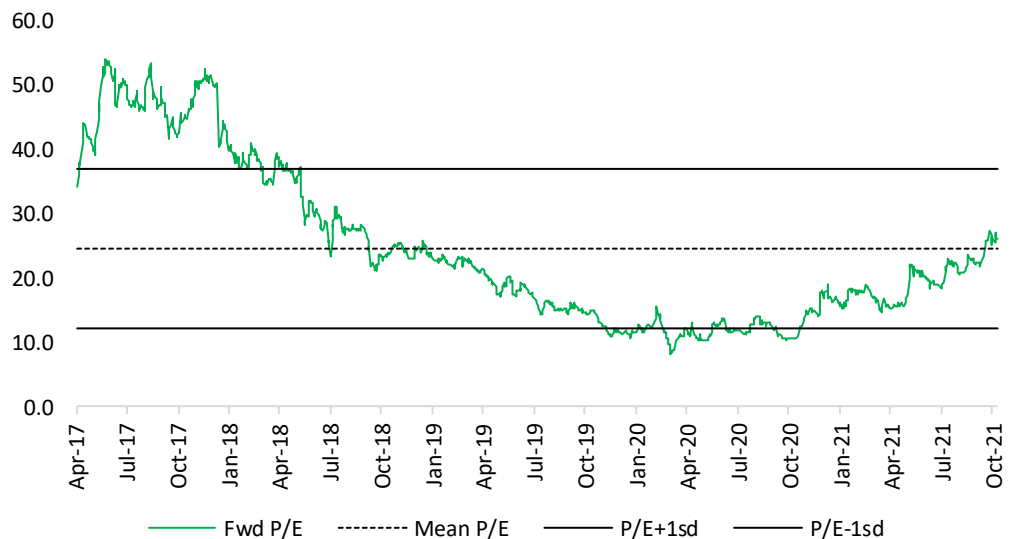
Innerwear is largely a necessity-based product whose consumption may be postponed but cannot be foregone. Demand in the economy price range of innerwear products remained buoyant despite outbreak of COVID-19. Extended WFH (work from home) scenario is supporting the demand for leisurewear products.

DIL's strong brand recall coupled with deeper penetration and consumers shifting towards affordable branded quality products are strong macro tailwinds for the company. Internet penetration and urbanization are the key areas which DIL is targeting in order to carve out a market share in the premium and super-premium segments with the help of e-commerce, modern outlets, and EBO models. 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.

At the current price of Rs 464, the stock is trading at 16x FY23e EPS. We have assigned a P/E multiple of 20x on FY23e EPS of Rs 29.7, **to arrive at a target price of Rs 595, which provides an upside of 28% 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.

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



Source: BSE, SMIFS research

## Quarterly financials -

Fig 2: Quarterly Financials

Y/E March (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Sales</b>	<b>2,432</b>	<b>2,548</b>	<b>2,377</b>	<b>1,595</b>	<b>2,574</b>	<b>3,118</b>	<b>3,083</b>	<b>2,046</b>	<b>3,907</b>
Raw Materials	1,206	1,139	1,178	723	1,011	1,400	1,319	775	1,791
Sub contracting	468	405	516	247	579	594	689	461	766
COGS	1,674	1,545	1,693	970	1,590	1,994	2,008	1,235	2,557
<b>Gross Profit</b>	<b>759</b>	<b>1,003</b>	<b>683</b>	<b>625</b>	<b>984</b>	<b>1,124</b>	<b>1,075</b>	<b>810</b>	<b>1,350</b>
Employee Costs	102	103	119	80	109	120	137	128	155
Other Expenditure	424	567	354	258	524	573	627	329	548
<b>EBITDA</b>	<b>233</b>	<b>333</b>	<b>210</b>	<b>287</b>	<b>351</b>	<b>432</b>	<b>311</b>	<b>353</b>	<b>648</b>
Depreciation	37	36	37	33	35	38	49	38	40
Interest	38	37	37	34	23	18	13	14	17
Other Income	5	6	32	2	5	6	21	9	3
<b>PBT</b>	<b>164</b>	<b>266</b>	<b>168</b>	<b>220</b>	<b>299</b>	<b>383</b>	<b>271</b>	<b>311</b>	<b>594</b>
Tax	27	70	35	56	76	99	70	79	151
Tax rate (%)	16.6%	26.5%	20.9%	25.4%	25.3%	25.8%	25.8%	25.6%	25.4%
<b>Reported PAT</b>	<b>137</b>	<b>196</b>	<b>133</b>	<b>164</b>	<b>220</b>	<b>284</b>	<b>201</b>	<b>225</b>	<b>438</b>
<b>YoY Growth (%)</b>									
Revenue	0.2%	4.2%	-20.2%	-31.7%	5.8%	22.4%	29.7%	28.3%	51.8%
EBITDA	-35.6%	-9.5%	-39.0%	6.2%	50.8%	29.6%	48.3%	23.3%	84.3%
PAT	-30.1%	1.1%	-41.0%	27.5%	61.2%	44.9%	50.9%	37.1%	98.7%
<b>QoQ Growth (%)</b>									
Revenue	4.1%	4.8%	-6.7%	-32.9%	61.4%	21.1%	-1.1%	-33.6%	91.0%
EBITDA	-13.6%	43.0%	-37.0%	36.5%	22.6%	22.8%	-27.9%	13.5%	83.3%
Adj. PAT	5.9%	43.4%	-32.0%	23.4%	33.9%	28.9%	-29.2%	12.2%	94.1%
<b>Margin (%)</b>									
Gross margin (%)	31.2%	39.4%	28.7%	39.2%	38.2%	36.1%	34.9%	39.6%	34.5%
EBITDA margin (%)	9.6%	13.1%	8.8%	18.0%	13.7%	13.8%	10.1%	17.3%	16.6%
PAT margin (%)	5.6%	7.7%	5.6%	10.3%	8.6%	9.1%	6.5%	11.0%	11.2%

Source: Company, SMIFS research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
<b>Net Sales</b>	<b>10,288</b>	<b>9,671</b>	<b>10,370</b>	<b>13,054</b>	<b>15,041</b>
Raw Materials	4,335	4,485	4,453	5,640	6,468
% of sales	42.1%	46.4%	42.9%	43.2%	43.0%
Subcontracting expenses	2111	1856	2108	2591	2993
% of sales	20.5%	19.2%	20.3%	19.9%	19.9%
<b>Gross Profit</b>	<b>3841</b>	<b>3331</b>	<b>3809</b>	<b>4824</b>	<b>5580</b>
Personnel	336	421	446	574	677
% of sales	3.3%	4.4%	4.3%	4.4%	4.5%
Manufact. & Other Exp.	2149	1864	1982	2103	2422
% of sales	20.9%	19.3%	19.1%	16.1%	16.1%
<b>EBITDA</b>	<b>1,357</b>	<b>1,046</b>	<b>1,381</b>	<b>2,146</b>	<b>2,482</b>
EBITDA Margin (%)	13.2%	10.8%	13.3%	16.4%	16.5%
Depreciation & Amortisation	111	142	155	186	210
<b>EBIT</b>	<b>1,246</b>	<b>904</b>	<b>1,226</b>	<b>1,960</b>	<b>2,272</b>
Interest Expenses	157	153	88	95	59
<b>EBT</b>	<b>1,088</b>	<b>751</b>	<b>1,138</b>	<b>1,865</b>	<b>2,214</b>
Other Income	22	47	35	43	53
<b>PBT</b>	<b>1,110</b>	<b>798</b>	<b>1,173</b>	<b>1,908</b>	<b>2,267</b>
Tax-Total	358	203	300	489	580
Effective tax rate (%)	32.2%	25.5%	25.6%	25.6%	25.6%
<b>Reported PAT</b>	<b>753</b>	<b>595</b>	<b>873</b>	<b>1420</b>	<b>1687</b>

Balance Sheet					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
<b>Sources of funds</b>					
Capital	113	113	113	113	113
Reserves & Surplus	4063	4536	5315	6598	8013
<b>Shareholders' Funds</b>	<b>4,177</b>	<b>4,649</b>	<b>5,428</b>	<b>6,712</b>	<b>8,126</b>
Minority Interest					
Total Debt	2233	2100	1240	1314	814
Deferred Tax Liabilities	0.8	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>6,411</b>	<b>6,749</b>	<b>6,668</b>	<b>8,026</b>	<b>8,940</b>
<b>Application of funds</b>					
Net Block	701	689	788	1349	1741
Capital WIP	20	141	147	0	0
Non-current Asset	122	259	272	301	311
<b>Net Fixed Assets</b>	<b>843</b>	<b>1,088</b>	<b>1,206</b>	<b>1,651</b>	<b>2,052</b>
Investments	0	0	0	0	0
Inventories	3246	3050	3339	4276	4248
Sundry Debtors	3476	3601	3309	4306	4301
Other Current Assets	319	438	505	554	593
Cash & Bank Balances	215	62	73	76	329
<b>Total Current Assets</b>	<b>7,257</b>	<b>7,150</b>	<b>7,227</b>	<b>9,210</b>	<b>9,470</b>
Creditors	1475	1203	1395	2,231	1947
Other Current Liabilities	193	245	317	551	582
Provisions	21	40	53	53	53
<b>Total Current Liabilities</b>	<b>1,689</b>	<b>1,489</b>	<b>1,765</b>	<b>2,835</b>	<b>2,582</b>
<b>Net Current Assets</b>	<b>5,568</b>	<b>5,661</b>	<b>5,462</b>	<b>6,375</b>	<b>6,888</b>
<b>Total assets</b>	<b>6,411</b>	<b>6,749</b>	<b>6,668</b>	<b>8,026</b>	<b>8,940</b>

Key Ratios					
YE March	FY19	FY20	FY21	FY22e	FY23e
<b>Growth ratios (%)</b>					
Net sales	112%	-6.0%	7.2%	25.9%	15.2%
EBITDA	9.5%	-22.9%	32.0%	55.4%	15.6%
Reported PAT	17.6%	-21.0%	46.8%	62.7%	18.8%
<b>Margin Ratio (%)</b>					
Gross Margin	37.3%	34.4%	36.7%	37.0%	37.1%
EBITDA Margin	13.2%	10.8%	13.3%	16.4%	16.5%
EBIT Margin	12.1%	9.3%	11.8%	15.0%	15.1%
PBT Margin	10.8%	8.3%	11.3%	14.6%	15.1%
PAT Margin	7.3%	6.1%	8.4%	10.9%	11.2%
<b>Return Ratio (%)</b>					
ROE	18.0%	12.8%	16.1%	21.2%	20.8%
ROCE	21.2%	13.7%	18.3%	26.7%	26.8%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	14.2	11.7	11.1	9.7	8.6
Inventory Period	108	119	112	105	102
Debtors Period	110	134	122	105	103
Creditors	46	51	46	50	50
Cash Conversion Cycle	171	202	188	160	155
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.5	0.5	0.2	0.2	0.1
Net Debt-equity (x)	0.5	0.4	0.2	0.2	0.1
Liquidity ratio (x)	1.9	2.0	2.5	2.3	2.9
Interest coverage ratio (x)	7.9	5.9	14.0	20.7	38.8
<b>Per share (Rs)</b>					
Adjusted EPS	13.3	10.5	15.4	25.0	29.7
CEPS	15.2	13.0	18.1	28.3	33.4
Book value	73.6	82.0	95.7	118.3	143.3
Dividend per share	1.7	1.7	2.0	2.0	4.0
Dividend Payout (%)	13%	16%	13%	8%	13%
Dividend Yield (%)	0.4%	0.4%	0.4%	0.4%	0.9%
<b>Valuation</b>					
P/E	34.9	44.2	30.1	18.5	15.6
P/BV	6.3	5.7	4.8	3.9	3.2
EV/EBITDA	20.9	27.1	19.9	12.8	10.8
P/Sales	2.6	2.7	2.5	2.0	1.7

Cash Flow					
YE March (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
<b>Operating profit before WC chg</b>	<b>1378</b>	<b>1113</b>	<b>1437</b>	<b>2189</b>	<b>2535</b>
Net change in working capital	-1370	-584	-113	-1351	-801
<b>Cash flow from operating activ</b>	<b>8</b>	<b>529</b>	<b>1324</b>	<b>761</b>	<b>1685</b>
Adjusted Operating Cash flow	8	529	1324	761	1685
Capital expenditure	-127	-225	-228	-601	-601
Adjusted FCF	-119	304	1096	160	1084
<b>Cash flow from investing activ</b>	<b>-158</b>	<b>-251</b>	<b>-219</b>	<b>-622</b>	<b>-601</b>
<b>Cash flow from financing activ</b>	<b>164</b>	<b>-426</b>	<b>-1094</b>	<b>-136</b>	<b>-831</b>
Net change in cash (a+b+c)	14	-148	11	2	253
Opening cash balance	194	207	59	70	72
<b>Ending cash balance</b>	<b>207</b>	<b>59</b>	<b>70</b>	<b>72</b>	<b>325</b>
Other bank balances	8	3	3	3	3
<b>Cash on balance sheet</b>	<b>215</b>	<b>62</b>	<b>73</b>	<b>76</b>	<b>329</b>

Source: Company, SMIFS research

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