

Q2FY23 Update | Textile | 13 November 2022

Dollar Industries Ltd.

Growth pillars in place driven by project Lakshya



Dollar Industries Ltd (DIL), reported weak performance in Q2FY23, which was lower than estimates in a challenging business environment of volatile raw material prices. Revenues in Q2FY23 declined led by a volume de-growth of ~16.5% YoY (volumes in H1FY23 grew by ~10% YoY). Gross margins in Q2FY23 declined on account of consumption of high cost raw material as company was not able to fully pass on the increase in raw material prices mainly cotton yarn. There was a high cost inventory related loss of ~Rs 120 mn in Q2FY23 and management expects inventory losses to come down significantly on a sequential basis as raw material prices have now started to stabilise in a range. With some stability in cotton prices there has been an improvement in the sentiments of the distribution channel. Management has guided for a topline growth of ~14%-15% YoY with EBIDTA margins in the range of ~13%-14% for FY23e. We expect performance of the company to improve on a QoQ basis from here onwards due to some stability in cotton prices. 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 708 (20xSep'24e EPS).

H1FY23 Earnings Highlights

- In H1FY23, the company reported a ~18% YoY increase in sales to Rs 7,034 mn, which was led by a volume increase of ~10% YoY.
- Gross margin for H1FY23 declined by ~379 bps YoY at 32.5%. Decline in gross margin was due to increase & volatility in raw material cost, which company was not able to fully pass on to the customers.
- EBITDA margin for H1FY23 declined by ~721 bps YoY to 9.6%. Decline in EBITDA margins was led by decline in gross margin & higher advertisement expenditure.
- PAT for H1FY23 declined by ~33% YoY at Rs 443 mn. Tax rate was lower at ~16.8% vs 25.5%.

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 ~189 distributors upto H1FY23 under the project Lakshya and target to bring ~70% of its distributor under project Lakshya by FY25.** Company has also on-boarded ~205 distributors under channel financing. **Going forward, management has maintained its goal to reach sales of ~Rs 20 billion by FY25.**

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 20xSep'24e EPS (rolled over from March'24) of Rs 35.4, to arrive at a target price of Rs 708 per share and maintain our "Buy" rating.**

Y/E Mar (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Q2FY23E	Var. (%)
Net sales	3,419	3,907	-12.5%	3,614	-5.4%	3,985	-14%
Operating costs	3,116	3,259	-4.4%	3,242	-3.9%		
EBITDA	303	648	-53.2%	372	-18.5%	609	-50%
EBITDA Margin (%)	8.9%	16.6%	(771)Bps	10.3%	(143)Bps	15.3%	
Depreciation	43	40	8.0%	43	2.2%		
Interest	39	17	133.4%	30	28.9%		
Other income	4	3	18.2%	26	-84.6%		
PBT	225	594	-62.1%	325	-30.8%		
Provision for tax	46	151	-69.8%	47	-2.2%		
Effective tax rate (%)	20.2%	25.4%		14.3%			
Reported PAT	173	438	-60.5%	270	-35.9%	416	-58%
PAT Margin (%)	5.1%	11.2%	(615)Bps	7.5%	(241)Bps	10.4%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. 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	13,503	30.2%	2,198	16.3%	1,471	72.4%	25.9	24.5%	19.6%	15.7	11.4
FY23E	15,049	11.4%	1,979	13.2%	1,316	-10.5%	23.2	18.4%	15.2%	19.6	13.5
FY24E	17,054	13.3%	2,708	15.9%	1,844	40.1%	32.5	21.7%	19.0%	14.0	9.5
FY25E	19,234	12.8%	3,150	16.4%	2,171	17.7%	38.3	21.6%	20.0%	11.9	7.9

Source: Company, SMIFS Institutional Research Estimates

Rating: Buy Upside: 56%
 Current Price: 454 Target Price: 708

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 713

Market data

Bloomberg: DOLLAR IN
 52-week H/L (Rs): 666/397
 Mcap (Rs bn/USD bn): 25.7/0.32
 Shares outstanding (mn): 56.7
 Free float: 27.09%
 Avg. daily vol. 3mth (in '000): 133.3
 Face Value (Rs): 2
 Group: BSE SmallCap
 Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	72.91	72.91	72.91	72.91
FIIs	0.52	0.48	0.30	0.20
DIIs	2.09	1.45	1.69	1.69
Public/Other	24.48	25.16	25.10	25.19

Promoters Pledging

% of o/s shares: 0 0 0 0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
BSE SmallCap	1.4%	4.3%	-0.6%	114.7%
Dollar	-7.5%	3.5%	-0.7%	158%

*as on 11th, Nov 2022; Source: AceEquity, SMIFS research

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Q2FY23 – Key takeaways from the management call

Guidance:

- ✓ Management has guided for a topline growth of ~14%-15% and EBIDTA margin in the range of ~13%-14% in FY23.
- ✓ **Management has maintained its goal to reach sales of Rs 20 bn by FY25.**

Q2FY23 – Highlights:

- ✓ In Q2FY23 company reported a volume de-growth of ~16.5% YoY. In H1FY23 reported volume growth of ~10% YoY. **In Q2FY23 company has incurred loss of ~Rs 120 mn due to consumption of high cost inventory for which company was not able to take price increase. Expect this loss to reduce significantly in Q3FY23.**
- ✓ In Q2FY23 due to both volatility and decline in cotton prices dealers and distributors were a bit skeptical in placing bulk orders and were buying in small lots as per actual sales at the secondary level.
- ✓ **In the month of Nov'22 some of the distributors have started placing bulk orders due to stability in cotton prices which should help the company to report better performance going forward.**
- ✓ In Q2FY23 sales of some of the winter products have got shifted from Q2FY23 to Q3FY23. Expect weather conditions to change over next one week mainly in North and East India which should help in increased sales for the winter wear products. **In Q2FY23 there was a volume de-growth of ~30% YoY in thermal products.**
- ✓ Contribution of thermal products in sales was ~6% vs ~12 YoY in Q2FY23. Usually ~50-55% sales of thermal products happen in Q2 and balance in Q3.
- ✓ Recently company has launched a new TVC with Mr Akshya Kumar and Ms. Yami Gautum for the thermal category to provide extra mileage to the winter sales.
- ✓ Revenue contribution by category for H1FY23: Dollar Man ~43%, Dollar Always ~38%, Dollar Women ~9.5%, Dollar Thermal ~6%, Force Next-3%
- ✓ **Company is witnessing good traction in the athleisure range of products as its contribution in sales has increased to ~13% vs ~12% YoY.**
- ✓ Breakup of revenue for H1FY23 geography wise: North-44%, West-21%, East-26%, South-9%.
- ✓ **Due to recent correction in cotton prices from the peak company does not plan to take any further price increase in the short term.**
- ✓ Company also plans to launch new product range in women's athleisure segment and mens active wear in Force NXT brand.
- ✓ Export sales was flat in H1FY23 and management expect exports sales to be flat for FY23 over last year. **Target is to increase share of exports to ~10%-11% of revenue by FY25.**
- ✓ In H1FY23 company incurred advertisement expenditure of Rs 600 mn ie ~8.5% of sales as compared to Rs 346 mn ie ~5.8% YoY. **Company plans to have advertisement expenditure of ~5.5% of sales in FY23 & FY24.**
- ✓ Management is confident that this advertisement expenditure would give benefit over the next 2 to 3 quarters.
- ✓ **The board of directors have approved ESOP plan which is subject to shareholder's approval. DIL is the first company in the hosiery industry to launch ESOP scheme for the employees which would help in retaining talent and suitably reward the employees.**

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 integrated warehouse & spinning capacity in March & May 2023 respectively.**

- ✓ Company expects only maintenance capex of ~Rs 80-Rs 100 mn for FY25 after completion of the on-going capex.

EBOs:

- ✓ Company has opened 8 EBO's till now of which 2 in Delhi, one each in UP, Rajasthan, Maharashtra, Gujarat, Punjab & Haryana. Plans to touch the target of ~25-30 EBO's by FY23 end. **Further it targets to have ~125 EBO's by FY25.**
- ✓ Company expects sales of ~Rs 400-450 mn from the ~125 EBO's once they become fully operational.

Channel Financing:

- ✓ Efforts towards channel financing for the distributors continued to witness good traction. Company has enrolled ~55 distributors under channel financing in H1FY23 and now has ~205 distributors under channel financing. **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 H1FY23 company has added ~47 distributors and now has enrolled a total of ~189 distributors under this project. **Company targets to have ~70% of its distributors under project Lakshya by end of FY25. In H1FY23 revenue contribution from distributor under Lakshya was ~16% vs ~8% in last entire year.**
- ✓ In FY22 company reported sales of ~Rs 1 bn from distributors under project Lakshya and in H1FY23 have achieved sales of ~Rs 980 mn from distributors under project Lakshya.
- ✓ **Company will now start mapping of retail network in two new state of Tamil Nadu and Kerala.**

Working Capital:

- ✓ Management expect to end FY23 with a net working capital days of ~145 days, expect reduction in debtor's days by ~7-8 days and inventory by ~3-4 days by the end of FY23. **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 reduced our estimates for Revenues by ~3%/3% & PAT ~20%/9% for FY23e/FY24e respectively as we lowered down EBIDTA margin assumption to factor in volatile raw material prices and weak performance in H1FY23.**
- ✓ **We have valued the stock at 20xSep'24e EPS (rolled over from March'24) of Rs 35.4, to arrive at a target price of Rs 708 per share and maintain our "Buy" rating.**

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)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Sales	3,118	3,083	2,046	3,907	3,821	3,730	3,614	3,419
COGS	1,994	2,008	1,235	2,557	2,510	2,531	2,390	2,358
Employee Costs	120	137	128	155	170	187	185	185
Other Expenditure	573	627	329	548	498	458	667	573
EBITDA	432	311	353	648	643	554	372	303
Depreciation	38	49	38	40	42	45	43	43
Interest	18	13	14	17	20	46	30	39
Other Income	6	21	9	3	15	38	26	4
Exceptional Items	0	0	0	0	0	0	0	0
PBT	383	271	311	594	596	500	325	225
Tax	99	70	79	151	152	129	47	46
Tax rate (%)	25.8%	25.8%	25.6%	25.4%	25.5%	25.8%	14.3%	20.2%
Reported PAT	284	201	231	443	444	371	279	180
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	-6	-7	-6	-6	-1	-7	-9	-7
Adjusted PAT	278	194	225	438	444	364	270	173

YoY Growth (%)

Revenue	22.4%	29.7%	28.3%	51.8%	22.5%	21.0%	76.7%	-12.5%
EBITDA	29.6%	48.3%	23.3%	84.3%	49.0%	77.9%	5.3%	-53.2%
PAT	47.5%	58.8%	39.3%	98.7%	59.7%	88.3%	19.6%	-60.5%

QoQ Growth (%)

Revenue	21.1%	-1.1%	33.6%	91.0%	-2.2%	-2.4%	-3.1%	-5.4%
EBITDA	22.8%	-27.9%	13.5%	83.3%	-0.7%	-13.9%	-32.8%	-18.5%
Adj. PAT	26.1%	-30.3%	16.5%	94.1%	1.4%	-17.8%	-26.0%	-35.9%

Margin (%)

Gross margin (%)	36.1%	34.9%	39.6%	34.5%	34.3%	32.1%	33.9%	31.0%
Employee cost/ revenue (%)	3.8%	4.4%	6.3%	4.0%	4.4%	5.0%	5.1%	5.4%
Other expenses/revenue (%)	18.4%	20.3%	16.1%	14.0%	13.0%	12.3%	18.5%	16.8%
EBITDA margin (%)	13.8%	10.1%	17.3%	16.6%	16.8%	14.8%	10.3%	8.9%
PAT margin (%)	9.1%	6.5%	11.3%	11.3%	11.6%	9.9%	7.7%	5.3%

Source: Company, SMIFS Institutional Research Estimates

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	10,370	13,503	15,049	17,054	19,234
COGS	6,561	8,834	10,158	11,204	12,598
% of sales	63.3%	65.4%	67.5%	65.7%	65.5%
Employee Expenditure	446	640	745	805	869
% of sales	4.3%	4.7%	5.0%	4.7%	4.5%
Other Exp.	1982	1832	2167	2336	2616
% of sales	19.1%	13.6%	14.4%	13.7%	13.6%
EBITDA	1,381	2,198	1,979	2,708	3,150
Depreciation & Amortisation	155	166	199	213	234
EBIT	1,226	2,032	1,780	2,495	2,917
Interest Expenses	88	96	132	64	56
Core PBT	1,138	1,936	1,648	2,430	2,861
Other Income	35	65	75	77	87
PBT	1,173	2,001	1,723	2,507	2,947
Tax	300	512	388	642	755
Tax Rate (%)	25.6%	25.6%	22.5%	25.6%	25.6%
Extraord. Items	0	0	0	0	0
Reported PAT	873	1490	1336	1865	2193
Share of profit/ (loss) in JV	-20	-19	-20	-21	-22
Adjusted PAT	853	1471	1316	1844	2171

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Growth ratios (%)					
Net sales	7.2%	30.2%	11.4%	13.3%	12.8%
EBITDA	32.0%	59.2%	-10.0%	36.8%	16.3%
Adjusted PAT	48.8%	72.4%	-10.5%	40.1%	17.7%
Margin Ratio (%)					
Gross Profit	36.7%	34.6%	32.5%	34.3%	34.5%
EBITDA	13.3%	16.3%	13.2%	15.9%	16.4%
EBIT	11.8%	15.0%	11.8%	14.6%	15.2%
Core PBT	11.0%	14.3%	11.0%	14.3%	14.9%
Adj. PAT	8.2%	10.9%	8.7%	10.8%	11.3%
Return Ratio (%)					
ROE	17.3%	24.5%	18.4%	21.7%	21.6%
ROCE	13.6%	19.6%	15.2%	19.0%	20.0%
Turnover Ratio days (days)					
Gross Block Turnover (x)	7.3	6.7	5.3	5.5	5.6
Adj OCF / PAT (%)	145	-6	155	91	82
Inventory	118	109	106	100	95
Debtors	116	99	95	90	90
Creditors	49	43	45	45	45
Cash Conversion Cycle	185	166	156	145	140
Solvency Ratio (%)					
Debt-equity	0.2	0.3	0.2	0.1	0.1
Net Debt-equity	0.2	0.3	0.1	0.0	-0.1
Gross Debt/EBITDA	0.9	0.9	0.8	0.3	0.2
Current ratio	2.5	2.2	2.4	3.1	3.4
Interest coverage ratio (x)	14.0	21.1	13.5	38.8	52.3
Dividend					
DPS (Rs)	3.0	3.0	3.0	5.0	9.0
Dividend Payout (%)	20%	12%	13%	15%	24%
Dividend Yield (%)	1.8%	0.7%	0.7%	1.1%	2.0%
Per share (Rs)					
EPS (Reported)	15.0	25.9	23.2	32.5	38.3
Adj. EPS	15.0	25.9	23.2	32.5	38.3
CEPS	17.8	28.9	26.7	36.3	42.4
BV	95.7	118.3	138.3	165.2	193.1
Valuation					
P/E	11.2	15.7	19.6	14.0	11.9
P/BV	1.8	3.4	3.3	2.7	2.4
EV/EBITDA	7.8	11.4	13.5	9.5	7.9
EV/Sales	1.0	1.9	1.8	1.5	1.3
EV/Core PBT	9.4	13.0	16.2	10.6	8.7

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Capital	113	113	113	113	113
Reserves & Surplus	5233	6597	7729	9255	10836
Shareholders' Funds	5,346	6,741	7,895	9,420	11,002
Total Debt	1240	2057	1557	757	657
Other non-current liabilities	72	98	98	98	98
Total Liabilities	6,659	8,895	9,549	10,275	11,756
Application of funds					
Net Block	788	813	1797	1885	1952
Capital WIP	135	496	135	135	135
Investments	6	3	15	17	19
Non-current Asset	205	322	347	351	355
Inventories	3339	4752	4370	4672	5006
Sundry Debtors	3309	4021	3917	4205	4743
Other Current Assets	505	646	713	774	854
Cash & Bank Balances	73	5	546	776	1552
Total Current Assets	7,227	9,424	9,547	10,427	12,154
Sundry Creditors	1,395	1,761	1,855	2,102	2,371
Other Current Liabilities	307	401	437	438	488
Total Current Liabilities	1,702	2,162	2,292	2,541	2,859
Net Current Assets	5,524	7,262	7,254	7,887	9,295
Total assets	6,659	8,896	9,549	10,275	11,756

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes					
	1437	2281	2054	2785	3237
Net change in working capital	186	-1831	511	-409	-638
Income tax paid	-299	-446	-388	-642	-755
Cash flow from operating activities (a)	1324	3	2178	1734	1844
Adjusted OCF	1236	-93	2045	1670	1788
Capital expenditure	-228	-576	-800	-300	-300
Adjusted Free Cash Flow	1096	-571	1378	1434	1544
Cash flow from investing activities (b)	-219	-619	-800	-300	-300
Debt Issuance (repayment)	-864	816	-500	-800	-100
Interest & Lease expenses	-139	-133	-132	-64	-56
Dividend Paid	-91	-136	-204	-340	-613
Cash flow from financing activities (c)	-1094	547	-836	-1205	-768
Net change in cash (a+b+c)	11	-68	541	230	776

Source: Company, SMIFS Institutional Research Estimates

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