

2 February 2022

## Dollar

*Profitable growth; maintaining a Hold*

Dollar's Q3 FY22 revenue beat our estimates by ~8%. Its gross margin, however, was hit by higher raw material prices. Of late, its performance has been higher than management guidance and better than we estimated. Its 9M FY22 revenue growth was 34% y/y (and a 16.8% margin) vs. 15-16% revenue growth guidance in FY22, and a 15-17% EBITDA margin. Management expects ~12-14% volume growth in the next 2-3 years, and 18-19% margins. We raise our FY22e/FY23e revenue 10% each, and 12% for FY24, boosted by more-than-expected growth in 9M FY22 and higher volume growth guidance. Our FY22e/FY23e/FY24e EPS are 19%/24%/29% higher than our previous estimates, powered by higher margins. Key monitorables for us are consistently profitable growth and better working capital, which should lead to greater cash-flows. We retain our Hold rating, with a TP of Rs678 (earlier Rs525), valuing the stock at 18x FY24e P/E.

**Revenue beats our estimates.** Q3 revenue grew 22.5% y/y to Rs3,821m, led by 11% volume growth. Prices were hiked once (in Dec'21); another hike is planned for Feb'22. The gross margin (incl. sub-contracting expenses) shrank ~176bps to 34.3% (36.1% a year ago) due to higher raw material prices. Lower other expenses (as percent of sales), though raised the EBITDA margin ~299bps y/y to 16.8%. PAT shot up ~60% y/y to Rs444m. Biggboss grew ~43%; Regular, ~34%.

**Launching products.** The company plans to launch brassiere products in Mar'22 in UP, Delhi and the North East. Further, it plans to launch a complete range of athleisure products in Dollar Women by Q1 FY23. Management says the company is on track to hit its targeted Rs20bn revenue in the next three years. And the ASP overall will change due to a change in the category mix. It is phasing out its Force Wear brand and focusing on creating Biggboss Athleisure. Athleisure contributed ~11% to revenue in 9M FY22.

**Valuation.** We retain our Hold rating, with a target of Rs678 (earlier Rs525), valuing the stock at 18x FY24e P/E. **Risks:** Volatile raw-material prices, changing customer preferences, cut-throat competition.

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	9,671	10,370	13,066	15,025	17,430
Net profit (Rs m)	573	853	1,330	1,680	2,136
EPS (Rs)	10.1	15.0	23.4	29.6	37.7
P/E (x)	10.9	15.5	27.0	21.4	16.8
EV / EBITDA (x)	7.9	10.4	18.1	14.2	11.0
P/BV (x)	1.4	2.5	5.5	4.4	3.6
RoE (%)	13.1	17.1	22.3	23.0	23.7
RoCE (%)	10.4	13.7	19.6	21.2	22.7
Dividend yield (%)	0.3	0.4	0.3	0.5	0.6
Net debt / equity (x)	0.4	0.2	0.1	-0.0	-0.1

Source: Company, Anand Rathi Research

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Rating: Hold

Target Price: Rs.678

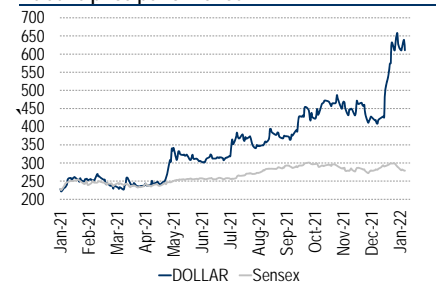
Share Price: Rs.633

Key data	DOLLAR IN
52-week high / low	Rs666 / 226
Sensex / Nifty	59558 / 17780
3-m average volume	\$1.3m
Market cap	Rs36bn / \$479.3m
Shares outstanding	57m

Shareholding pattern (%)	Dec'21	Sep'21	Jun'21
Promoters	72.9	72.9	72.9
- of which, Pledged	-	-	-
Free float	27.1	27.1	27.1
- Foreign institutions	0.2	-	-
- Domestic institutions	1.7	1.8	3.4
- Public	25.2	25.3	23.7

Estimates revision (%)	FY22e	FY23e	FY24e
Sales	9.6	10.0	12.0
EBITDA	12.7	18.9	24.1
EPS	19.0	24.3	29.2

## Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya  
Research Analyst

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues	9,671	10,370	13,066	15,025	17,430
<i>Growth (%)</i>	-6.0	7.2	26.0	15.0	16.0
Direct costs	4,485	4,453	6,010	6,611	7,495
SG&A	4,141	4,536	5,042	5,886	6,773
<b>EBITDA</b>	<b>1,046</b>	<b>1,381</b>	<b>2,014</b>	<b>2,528</b>	<b>3,161</b>
<i>EBITDA margins (%)</i>	<i>10.8</i>	<i>13.3</i>	<i>15.4</i>	<i>16.8</i>	<i>18.1</i>
- Depreciation	142	155	167	212	260
Other income	47	35	39	30	35
Interest expenses	153	88	84	60	34
PBT	798	1,173	1,803	2,287	2,902
<i>Effective tax rate (%)</i>	<i>25.5</i>	<i>26.0</i>	<i>25.7</i>	<i>26.1</i>	<i>26.1</i>
+ Associates / (Minorities)	-	-	-	-	-
Net income	573	853	1,330	1,680	2,136
Adjusted income	573	853	1,330	1,680	2,136
WANS	57	57	57	57	57
FDEPS (Rs / sh)	10.1	15.0	23.4	29.6	37.7
<i>FDEPS growth (%)</i>	<i>(22.1)</i>	<i>48.8</i>	<i>55.9</i>	<i>26.3</i>	<i>27.1</i>
<i>Gross margins (%)</i>	<i>53.6</i>	<i>57.1</i>	<i>54.0</i>	<i>56.0</i>	<i>57.0</i>

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT (adj. for int. inc. & exp.)	929	1,234	1,835	2,304	2,889
+ Non-cash items	184	202	167	212	260
Oper. prof. before WC	1,113	1,436	2,002	2,516	3,149
- Incr. / (decr.) in WC	338	-186	544	704	702
Others incl. taxes	246	299	461	595	755
Operating cash-flow	529	1,323	997	1,217	1,693
- Capex (tang. + intang.)	224	227	270	350	350
Free cash-flow	304	1,096	727	867	1,343
Acquisitions					
- Div. (incl. buyback & taxes)	116	96	137	170	227
+ Equity raised	-	-	-	-	-
+ Debt raised	-133	-864	-350	-250	-400
- Fin investments	28	-0	-	-	-
- Misc. (CFI + CFF)	175	125	44	29	(1)
Net cash-flow	-148	10	196	418	718

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	113	113	113	113	113
Net worth	4,608	5,368	6,561	8,071	9,980
Debt (incl. pref.)	2,083	1,219	869	619	219
Minority interest	-	-	-	-	-
DTL / (Assets)*	54	55	55	55	55
<b>Capital employed</b>	<b>6,745</b>	<b>6,642</b>	<b>7,485</b>	<b>8,745</b>	<b>10,254</b>
Net tangible assets**	743	852	956	1,094	1,183
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	141	147	147	147	147
Investments (strategic)	59	39	39	39	39
Investments (financial)	6	6	6	6	6
Current assets (ex cash)	7,186	7,255	8,281	9,317	10,426
Cash	62	73	269	687	1,404
Current liabilities	1,452	1,731	2,213	2,545	2,952
Working capital	5,735	5,524	6,068	6,773	7,474
<b>Capital deployed</b>	<b>6,745</b>	<b>6,642</b>	<b>7,485</b>	<b>8,745</b>	<b>10,254</b>
Contingent liabilities	-	-	-	-	-

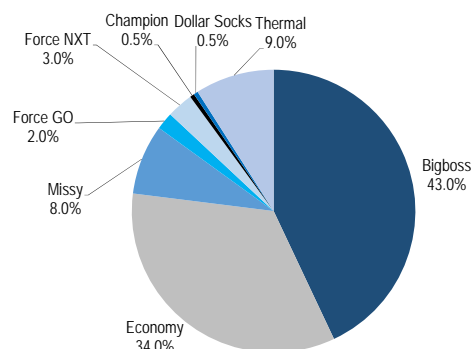
\* including lease liabilities, \*\* including right-to-use assets

**Fig 4 – Ratio analysis**

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	10.9	15.5	27.0	21.4	16.8
EV / EBITDA (x)	7.9	10.4	18.1	14.2	11.0
EV / Sales (x)	0.9	1.4	2.8	2.4	2.0
P/B (x)	1.4	2.5	5.5	4.4	3.6
RoE (%)	13.1	17.1	22.3	23.0	23.7
RoCE (%) - after tax	10.4	13.7	19.6	21.2	22.7
RoIC (%) - after tax	8.4	11.0	15.5	17.1	19.1
DPS (Rs / sh)	1.7	2.4	2.0	3.0	4.0
Dividend yield (%)	0.3	0.4	0.3	0.5	0.6
Div. payout (%) - incl. DDT	16.2	16.0	8.5	10.1	10.6
Net debt / equity (x)	0.4	0.2	0.1	-0.0	-0.1
Receivables (days)	136	116	105	100	97
Inventory (days)	115	118	105	105	100
Payables (days)	45	49	50	50	50
CFO : PAT %	92.2	155.1	75.0	72.4	79.3

Source: Company, Anand Rathi Research

**Fig 6 – Brand-wise FY21 revenue break-up**



Source: Company

## Financial highlights

Dollar's Q3 FY22 revenue grew 22.5% y/y to Rs3,821m. The gross margin (only COGS) contracted to 51.1% (from ~55.1% a year ago). Incl. sub-contracting expenses, it contracted ~176bps y/y to 34.3% (36.1% a year ago). Employee expenses rose ~41% y/y while other expenses slipped ~13% y/y. EBITDA grew ~49% y/y to Rs643m (Rs432m a year ago). The EBITDA margin expanded ~299bps y/y to 16.8% vs. 13.8% a year ago (and ~25bps q/q from 16.6% the quarter prior). Depreciation/interest expense were ~12.4%/ 10.5% higher y/y; other income, ~131%. Losses from the JV were flat at Rs0.6m. PBT was ~55.6% higher y/y at Rs595m (Rs383m a year ago). The tax rate came at 25.5%. PAT grew ~59.7% y/y to Rs444m (Rs278m a year ago).

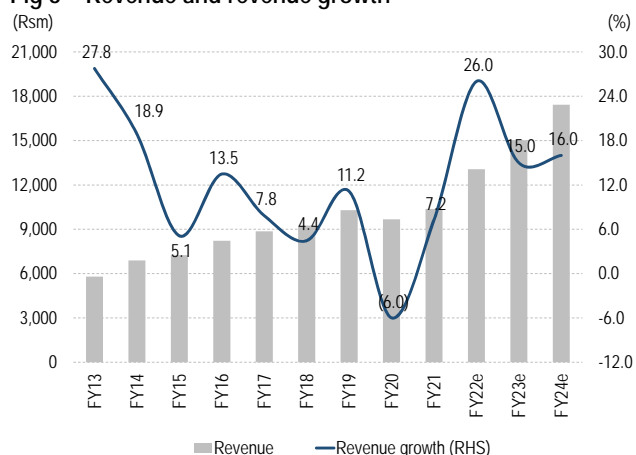
Revenue for 9M FY22 grew ~34% y/y to Rs9,773m. The gross margin (only COGS) was 54.6%, contracting ~238bps y/y. EBITDA came at Rs1,644m (Rs1,070m for the year-ago period). The EBITDA margin expanded ~215bps y/y to 16.8% (14.7%). PAT was Rs1,106m (Rs660m).

Fig 7 – Financial performance

(Rs m)	Q3 FY22	Q3 FY21	% Y/Y	Q2 FY22	% Q/Q	9M FY22	9M FY21	% Y/Y
Sales	3,821	3,118	22.5	3,907	-2.2	9,773	7,292	34.0
Gross margins (%)	51.1	55.1	-398bps	54.2	-305bps	54.6	57.0	-238bps
EBITDA	643	432	49.0	648	-0.7	1,644	1,070	53.7
EBITDA margins (%)	16.8	13.8	299bps	16.6	25bps	16.8	14.7	215bps
Depreciation	42	38	12.4	40	5.3	121	106	14.2
EBIT	601	394	52.5	607	-1.1	1,523	964	58.1
Interest	20	18	10.5	17	19.1	50	75	-33.5
Other income	15	6	130.8	3	351.3	27	14	101.9
PBT	595	383	55.6	589	1.2	1,489	902	65.0
Tax	152	99	53.7	151	0.7	382	231	65.8
Tax rates (%)	25.5	25.8	-32bps	25.6	-13bps	25.7	25.5	13bps
PAT	444	278	59.7	438	1.4	1,106	660	67.7

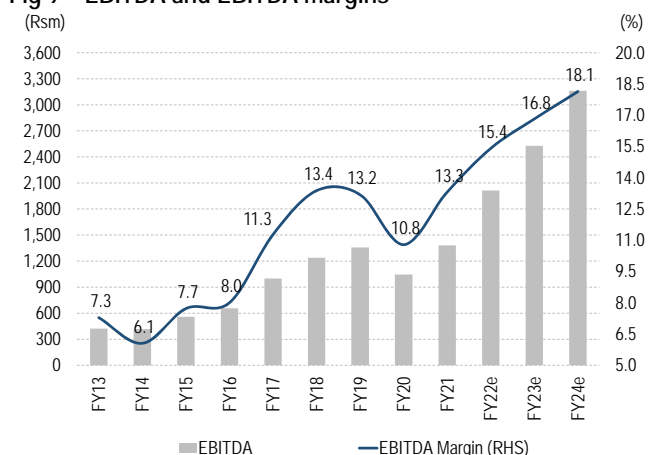
Source: Company

Fig 8 – Revenue and revenue growth



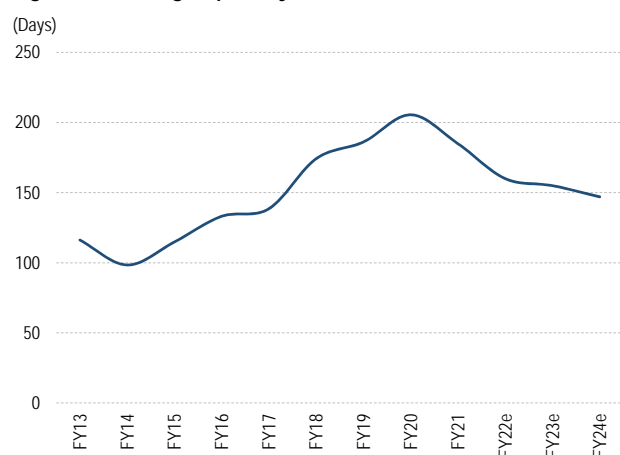
Source: Company, Anand Rathi Research

Fig 9 – EBITDA and EBITDA margins



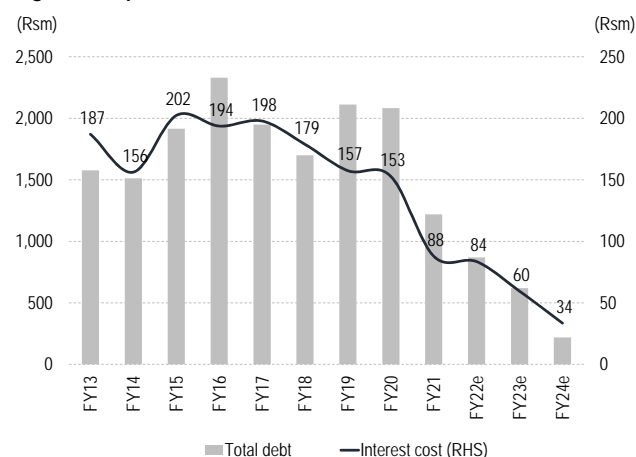
Source: Company, Anand Rathi Research

Fig 10 – Working-capital cycle



Source: Company, Anand Rathi Research

Fig 11 – Expect debt to slide



Source: Company, Anand Rathi Research

### Other business updates

- **Project Lakshya.** 21,000 outlets were mapped in Q3 FY22, and 53,360 outlets enrolled by 31<sup>st</sup> Dec'21. 7.4% of 9M FY22 domestic sales stemmed from Lakshya distributors. 115 distributors were enrolled by end-Dec'21 (vs 91 by Sep'21). Mapping work is in progress in the North East, Andhra Pradesh, Goa, Bihar and Haryana. The company plans to have 125-150 distributors by end-FY22, and 200-250 by end-FY23. Modern retail brought 3.22% to 9M FY22 revenue. The company expects this to go up to 4% of revenue by FY22-end, and 6% by FY23. At present, on average, it has 100 active outlets per distributor. Management plans 150-200 active outlets per distributor and deepen penetration to cover 50% of its distributors under Project Lakshya by FY24. It plans Rs20bn revenue by FY25.
- **Integrated warehouse.** It kick-started the process of consolidating, for operational efficiency, all six warehouses into a single one in West Bengal, at investment of Rs500m. Of this Rs120m was invested in FY21, Rs220m would be invested in FY22 and Rs160m in FY23.
- **Brownfield expansion of spinning capacity.** The company plans to increase its in-house yarn capacity from 400 tpm to 600-700 tpm. This would ensure a regular supply of yarn, ensuring a smooth production process. Rs200m would be invested in FY22 and Rs450m in FY23 (completion expected by FY23).
- **Channel financing.** The company has entered an agreement with a large private-sector bank for channel financing to reduce overall receivables. 55 distributors have been on-boarded.
- **EBO expansion.** The company plans to initially open 5-6 EBOs in FY22 in Uttar Pradesh and Rajasthan. The first one was set up through a franchisee at Ayodhya, UP, in Oct'21.
- **Joint venture.** It formed a 51:49 joint venture, PEPE Jeans Innerfashion Pvt. Ltd., with G.O.A.T Brand Labs Pte acquiring a 50% stake in Pepe and an additional 2% non-voting equity. The JV will have operations in India, Sri Lanka, Bhutan, Nepal and Bangladesh.
- **Volumes, raw-material price hikes.** Volumes for 9M FY22 grew ~14% (~11% for Q3 FY22). Management expects 12-14% volume

growth for the next 2-3 years. The company hiked prices once (in Dec'21) and plans another, in Feb'22.

- **Revenue contribution.** The North brought 43% to revenue; the West and Central, 24%; the East, 26% and the South, 7%. Management says the South has potential of going 10-12%. Exports brought 9% to sales; modern trade, 3% and domestic sales, 88%. Modern trade is handled by the company, directly.
- **Working-capital betterment.** Working capital shortened from 178 days in Mar'21 to 154 in Dec'21, aided by a decline in receivables to 103 days (vs 122 at end-FY21), and inventory to 107 days (vs 112 at end-FY21).
- **Outlook.** Management expects modern retail of going up to 6-6.5%. From next year, advertising expenses would be maintained ~6-6.5%. In the next three years, management wants EBITDA margins of ~18-19%. It seeks to keep sustainable gross margins of ~36-38%. It expects active retail outlets of ~200,000-250,000 in the next 3-4 years.

## Change in estimates

Factoring in the better 9M FY22, we raise our FY22e/FY23e/FY24e revenue 9.6%/10%/12%. With the more-than-expected volume growth, operating leverage and change in product mix, we increase our EBITDA margin estimates. Hence our FY22e/FY23e/FY24e EPS are 19%/24%/29% higher.

We now expect ~19%/32%/36% revenue/EBITDA/EPS CAGRs over FY21-24 (15%/23%/25% earlier).

**Fig 12 – Estimates revision**

(Rs m)	Old estimates			New estimates			Change (%)		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
Revenue	11,925	13,654	15,566	13,066	15,025	17,430	9.6	10.0	12.0
EBITDA	1,787	2,126	2,548	2,014	2,528	3,161	12.7	18.9	24.1
PAT	1,118	1,352	1,654	1,330	1,680	2,136	19.0	24.3	29.2
EPS (Rs)	19.7	23.8	29.2	23.4	29.6	37.7	19.0	24.3	29.2

*Source: Anand Rathi Research*

## Valuation

We maintain our Hold rating, with a revised target of Rs678 (earlier Rs525) valuing the stock at 18x FY24e P/E.

**Fig 13 – Valuation parameters**

	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	10.9	15.5	27.0	21.4	16.8
EV / EBITDA (x)	7.9	10.4	18.1	14.2	11.0
EV / Sales (x)	0.9	1.4	2.8	2.4	2.0
RoE (%)	13.1	17.1	22.3	23.0	23.7
RoCE (%)	10.4	13.7	19.6	21.2	22.7

Source: Company, Anand Rathi Research

### Risks

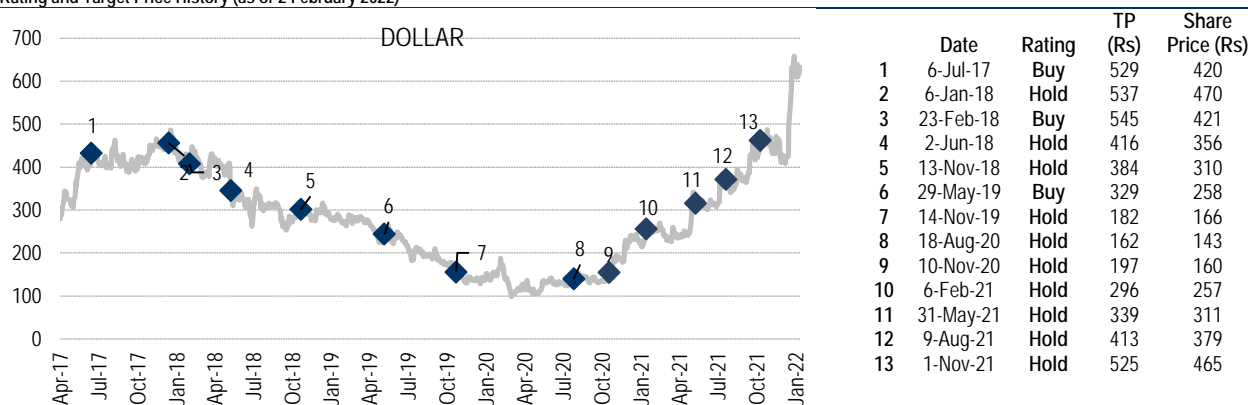
- **Volatile raw-material prices.** Any delay or inability of the company to pass on higher raw-material prices could lead to compressed margins.
- **Changing technology, consumer behaviour.** The innerwear sub-category is subject to rapid shifts in consumer preferences and technology. The inability of the company to respond in time to such changes would hinder its performance.
- **Keener competition.** The company operates in a cut-throat context against international and domestic brands. Standing out in such a challenging competitive context is essential.

## Appendix

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