



# Dollar Industries Ltd.

## Excellent performance continued; Outlook positive

Dollar Industries Ltd (DIL), delivered a strong all-round performance in Q3FY22, with revenue up by ~22.5% YoY backed by volumes growth of ~11% YoY (+14% in 9mFY22). 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 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. We remain positive on the company's mid-to long term potential on strong Q3FY22 results, management growth initiatives which provides confidence of robust growth momentum ahead. We thus maintain our 'Buy' rating on the stock with a target price to Rs 759 (20xFY24e EPS),

### Strong quarterly performance

- In Q3FY22, the company reported a ~22.5% YoY increase in sales to Rs 3821 mn, driven by ~11% YoY volume growth and the balance was on account of price increase and product mix. In 9mFY22 company reported sales of Rs 9773.1 mn up by 34% YoY backed by volume growth of 14% YoY.
- Gross margin for Q3FY22 declined by 180 bps YoY & 20 bps QoQ to 34.3%. Gross margins were impacted due to a steep increase in yarn prices. Company has been taking regular price increases with last price increase taken in the month of December 2021. Plans to take further price increase in the month of February 2022.
- EBITDA margin for Q3FY22 increased by 300 bps YoY to 16.8%, majorly on account of lower other expenditure and higher operating leverage. Decline in other expenditure was mainly on account of lower advertisement expenditure which stood at 4.7% vs 8% YoY of sales.
- PAT grew 60% YoY to Rs 444 mn, driven by a higher top-line growth and better operating performance.

### 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 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 the stock is trading at 16x FY24e EPS. We have valued the stock at 20x FY24e EPS of Rs 37.9, to arrive at a target price of Rs 759, which provides an upside of 24% based on the current market price.

Y/E Mar (Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)
Net sales	3,821	3,118	22.5%	3,907	-2.2%
Operating costs	3,177	2,686	18.3%	3,259	-2.5%
EBITDA	643	432	49.0%	648	-0.7%
EBITDA Margin (%)	16.8%	13.8%	299 Bps	16.6%	25 Bps
Depreciation	42	38	12.4%	40	5.3%
Interest	20	18	10.5%	17	19.1%
Other income	15	6	130.8%	3	351.3%
Provision for tax	152	99	53.7%	151	0.7%
Effective tax rate (%)	25.5%	25.8%	(34)Bps	25.4%	9 Bps
PAT (Reported)	444	278	59.9%	438	1.5%
NPM (%)	11.6%	8.9%	272 Bps	11.2%	42 Bps

Source: Company, SMIFS research estimates

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%	595	-21.0%	10.5	13.5%	13.7%	58.2	35.0
FY21	10,370	7.2%	1,381	13.3%	873	46.8%	15.4	17.3%	18.3%	39.6	25.9
FY22e	13,537	30.5%	2,273	16.8%	1,516	73.7%	26.7	25.1%	28.5%	22.8	15.6
FY23e	15,652	15.6%	2,661	17.0%	1,817	19.8%	32.0	24.7%	29.1%	19.0	13.1
FY24e	18,006	15.0%	3,115	17.3%	2,152	18.4%	37.9	24.3%	29.9%	16.1	10.8

Source: Company, SMIFS research estimates

Rating: Buy Upside/(Downside): 24%  
Current Price: 610 Target Price: 759

### Earlier recommendation

Previous Rating: Buy  
Previous Target Price: 595

### Market data

Bloomberg:	DOLLAR IN
52-week H/L (Rs):	665/206
Mcap (Rs bn/USD mn):	34/461
Shares outstanding (mn):	56.7
Free float:	27.09%
Avg. daily vol. 3mth (3M Avg – in '000):	184.22
Face Value (Rs):	2
Group:	BSE 500

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Dec-21	Sep-21	Jun-21	Mar-21
Promoter	72.9%	72.9%	72.9%	72.9%
FIIIs	0.20%	0.13%	0.0%	0.0%
DIIIs	1.45%	1.69%	3.39%	3.7%
Public/other	25.4%	25.3%	23.7%	23.3%

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE 500	-0.9%	-3.6%	28.53	66.2
DIL	45.6	41.05	164.84	114.2

\*as on 28<sup>th</sup> Jan 2022; Source: AceEquity, SMIFS research

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## Q3FY22 – Key takeaways from the management call

### Q3FY22 – Quick Highlights-

- ✓ In Q3FY22 company reported a volume growth of 11% YoY. Industry as well as company is benefitting from a structural shift of consumer demand from unorganised to the organised sector. Unorganised players are facing challenges in terms of production, increasing raw material prices, working capital issues etc
- ✓ Company plans to launch complete range of brassiere products by March 2022 which was earlier planned for launch in January 2022, got delayed due to pandemic related restrictions. Also plans to launch a complete range of athleisure wear products under Dollar Woman brand in Q1FY23.

### Guidance-

- ✓ Management maintained its goal to reach sales of Rs 20 bn by FY25 with expected EBIDTA margins of ~18-19%.

### 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 existing 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 for which the initial response has been good. Furthermore, it will plan to open 5-6 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. In Q3FY22 company has bought 55 distributors under channel financing and expect to bring ~150-200 distributors under channel financing by FY22 end. 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 plans 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 Q3FY22, company has enrolled 115 distributors under this project. Company is expected to have ~125-150 distributors by end of FY22 & ~200-250 distributors by end of FY23.
- ✓ Company has enrolled 53,360 of the mapped outlets. In 9mFY22 ~7.4% of domestic sales is contributed from distributors which are there under Lakshya project.

- ✓ Company is expected to expand its penetration to cover 50% of its distributors under Project Lakshya by FY24. Currently mapping work is going on in North East, Andhra Pradesh, Goa, Bihar & Haryana.

#### Working Capital-

- ✓ At the end of Q3FY22 net working capital days improved by ~24 days from FY21.
- ✓ In Q3FY22, advertising expense stood at Rs 178 mn, which is ~4.7% of its Q3FY22 sales. In 9mFY22 advertisement expenditure was Rs 505 mn which is ~5.2% of sales.

### Outlook and Valuations

- ✓ Innerwear is largely a necessity-based product whose consumption may be postponed but cannot be foregone. 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 stock is trading at 16x FY24e EPS. We have valued the stock at 20x on FY24e EPS of Rs 37.9, to arrive at a target price of Rs 759, **which provides an upside of 24% 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**



## Quarterly financials

**Fig 2: Quarterly Financials**

Y/E March (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Net Sales</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>	<b>3,821</b>
Raw Materials	1,178	723	1,011	1,400	1,319	775	1,791	1,868
Sub contracting Expense	516	247	579	594	689	461	766	643
COGS	1,693	970	1,590	1,994	2,008	1,235	2,557	2,510
<b>Gross Profit</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>	<b>1,310</b>
Employee Costs	119	80	109	120	137	128	155	170
Other Expenditure	354	258	524	573	627	329	548	498
<b>EBITDA</b>	<b>210</b>	<b>287</b>	<b>351</b>	<b>432</b>	<b>311</b>	<b>353</b>	<b>648</b>	<b>643</b>
Depreciation	37	33	35	38	49	38	40	42
Interest	37	34	23	18	13	14	17	20
Other Income	32	2	5	6	21	9	3	15
<b>PBT</b>	<b>168</b>	<b>220</b>	<b>299</b>	<b>383</b>	<b>271</b>	<b>311</b>	<b>594</b>	<b>596</b>
Tax	35	56	76	99	70	79	151	152
Tax rate (%)	20.9%	25.4%	25.3%	25.8%	25.8%	25.6%	25.4%	25.5%
<b>Reported PAT</b>	<b>133</b>	<b>164</b>	<b>220</b>	<b>278</b>	<b>201</b>	<b>225</b>	<b>438</b>	<b>444</b>
<b>YoY Growth (%)</b>								
Revenue	-20.2%	-31.7%	5.8%	22.4%	29.7%	28.3%	51.8%	22.5%
EBITDA	-39.0%	6.2%	50.8%	29.6%	48.3%	23.3%	84.3%	49.0%
PAT	-41.0%	27.5%	61.2%	41.8%	50.9%	37.1%	98.7%	59.9%
<b>QoQ Growth (%)</b>								
Revenue	-6.7%	-32.9%	61.4%	21.1%	-1.1%	-33.6%	91.0%	-2.2%
EBITDA	-37.0%	36.5%	22.6%	22.8%	-27.9%	13.5%	83.3%	-0.7%
Adj. PAT	-32.0%	23.4%	33.9%	26.1%	-27.6%	12.2%	94.1%	1.5%
<b>Margin (%)</b>								
Gross margin (%)	28.7%	39.2%	38.2%	36.1%	34.9%	39.6%	34.5%	34.3%
EBITDA margin (%)	8.8%	18.0%	13.7%	13.8%	10.1%	17.3%	16.6%	16.8%
PAT margin (%)	5.6%	10.3%	8.6%	8.9%	6.5%	11.0%	11.2%	11.6%

Source: Company, SMIFS research estimates

## Financial Statements

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Net Sales</b>	<b>9,671</b>	<b>10,370</b>	<b>13,537</b>	<b>15,652</b>	<b>18,006</b>
Raw Materials	4,485	4,453	6,146	7,137	8,121
% of sales	46.4%	42.9%	45.4%	45.6%	45.1%
Subcontracting expenses	1856	2108	2613	2990	3493
% of sales	19.2%	20.3%	19.3%	19.1%	19.4%
<b>Gross Profit</b>	<b>3331</b>	<b>3809</b>	<b>4779</b>	<b>5525</b>	<b>6392</b>
Personnel	421	446	609	689	792
% of sales	4.4%	4.3%	4.5%	4.4%	4.4%
Manufact. & Other Exp.	1864	1982	1897	2176	2485
% of sales	19.3%	19.1%	14.0%	13.9%	13.8%
<b>EBITDA</b>	<b>1,046</b>	<b>1,381</b>	<b>2,273</b>	<b>2,661</b>	<b>3,115</b>
EBITDA Margin (%)	10.8%	13.3%	16.8%	17.0%	17.3%
Depreciation & Amortisation	142	155	186	217	240
<b>EBIT</b>	<b>904</b>	<b>1,226</b>	<b>2,087</b>	<b>2,444</b>	<b>2,875</b>
Interest Expenses	153	88	95	59	51
<b>EBT</b>	<b>751</b>	<b>1,138</b>	<b>1,992</b>	<b>2,385</b>	<b>2,824</b>
Other Income	47	35	43	53	64
<b>PBT</b>	<b>798</b>	<b>1,173</b>	<b>2,035</b>	<b>2,439</b>	<b>2,888</b>
Tax-Total	203	300	519	622	736
Effective tax rate (%)	25.5%	25.6%	25.5%	25.5%	25.5%
Extraord. items - Adj.					
<b>Reported PAT</b>	<b>595</b>	<b>873</b>	<b>1516</b>	<b>1817</b>	<b>2152</b>

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Sources of funds</b>					
Capital	113	113	113	113	113
Reserves & Surplus	4536	5315	6525	7933	9540
<b>Shareholders' Funds</b>	<b>4,649</b>	<b>5,428</b>	<b>6,638</b>	<b>8,047</b>	<b>9,654</b>
Minority Interest					
Total Debt	2100	1240	1314	814	714
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>6,749</b>	<b>6,668</b>	<b>7,952</b>	<b>8,860</b>	<b>10,367</b>
<b>Application of funds</b>					
Net Block	689	788	1,349	1,833	1,895
Capital WIP	141	147	0	0	0
Non-current Asset	259	272	243	254	265
<b>Net Fixed Assets</b>	<b>1,088</b>	<b>1,206</b>	<b>1,593</b>	<b>2,087</b>	<b>2,160</b>
Investments	0	0	0	0	0
Goodwill					
Inventories	3050	3339	3709	4074	4440
Sundry Debtors	3601	3309	3709	4074	4341
Other Current Assets	438	505	574	617	673
Cash & Bank Balances	62	73	524	493	1585
<b>Total Current Assets</b>	<b>7,150</b>	<b>7,227</b>	<b>8,516</b>	<b>9,257</b>	<b>11,040</b>
Creditors	1,203	1,395	1,669	1,930	2,220
Other Current Liabilities	245	317	434	501	559
Provisions	40	53	53	53	53
<b>Total Current Liabilities</b>	<b>1,489</b>	<b>1,765</b>	<b>2,156</b>	<b>2,484</b>	<b>2,832</b>
<b>Net Current Assets</b>	<b>5,661</b>	<b>5,462</b>	<b>6,359</b>	<b>6,773</b>	<b>8,207</b>
<b>Total assets</b>	<b>6,749</b>	<b>6,668</b>	<b>7,952</b>	<b>8,860</b>	<b>10,367</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY20	FY21	FY22e	FY23e	FY24e
<b>Growth ratios (%)</b>					
Net sales	-6.0%	7.2%	30.5%	15.6%	15.0%
EBITDA	-22.9%	32.0%	64.6%	17.1%	17.1%
Reported PAT	-21.0%	46.8%	73.7%	19.8%	18.4%
<b>Margin Ratio (%)</b>					
Gross Margin	34.4%	36.7%	35.3%	35.3%	35.5%
EBITDA Margin	10.8%	13.3%	16.8%	17.0%	17.3%
EBIT Margin	9.3%	11.8%	15.4%	15.6%	16.0%
PBT Margin	8.3%	11.3%	15.0%	15.6%	16.0%
PAT Margin	6.1%	8.4%	11.2%	11.6%	11.9%
<b>Return Ratio (%)</b>					
ROE	13.5%	17.3%	25.1%	24.7%	24.3%
ROCE	13.7%	18.3%	28.5%	29.1%	29.9%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	11.7	11.1	10.0	8.5	9.5
Inventory Period	119	112	100	95	90
Debtors Period	134	122	100	95	88
Creditors	51	46	45	45	45
Cash Conversion Cycle	202	188	155	145	133
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.5	0.2	0.2	0.1	0.1
Net Debt-equity (x)	0.4	0.2	0.1	0.0	-0.1
Liquidity ratio (x)	2.0	2.5	2.5	2.9	3.2
Interest coverage ratio (x)	5.9	14.0	22.1	41.7	55.9
<b>Per share (Rs)</b>					
Adjusted EPS	10.5	15.4	26.7	32.0	37.9
CEPS	13.0	18.1	30.0	35.9	42.2
Book value	82.0	95.7	117.0	141.9	170.2
Dividend per share	1.7	2.4	4.5	6.0	8.0
Dividend Payout (%)	16%	16%	17%	19%	21%
Dividend Yield (%)	0.3%	0.4%	0.7%	1.0%	1.3%
<b>Valuation</b>					
P/E	58.2	39.6	22.8	19.0	16.1
P/BV	7.4	6.4	5.2	4.3	3.6
EV/EBITDA	35.0	25.9	15.6	13.1	10.8
P/Sales	3.6	3.3	2.6	2.2	1.9
<b>Cash Flow</b>					
YE March (Rs mn)	FY20	FY21	FY22e	FY23e	FY24e
<b>Operating profit before WC changes</b>	<b>1113</b>	<b>1437</b>	<b>2316</b>	<b>2714</b>	<b>3179</b>
Net change in working capital	-338	186	-418	-455	-354
Income tax paid (net)	-246	-299	-519	-622	-736
<b>Cash flow from operating activities (a)</b>	<b>529</b>	<b>1324</b>	<b>1379</b>	<b>1637</b>	<b>2089</b>
Capital expenditure	-225	-228	-601	-701	-301
Free Cash Flow	304	1096	778	936	1788
<b>Cash flow from investing activities (b)</b>	<b>-251</b>	<b>-219</b>	<b>-622</b>	<b>-701</b>	<b>-301</b>
<b>Cash flow from financing activities (c)</b>	<b>-426</b>	<b>-1094</b>	<b>-306</b>	<b>-967</b>	<b>-696</b>
Net change in cash (a+b+c)	-148	11	451	-31	1092
Opening cash balance	207	59	70	521	490
<b>Ending cash balance</b>	<b>59</b>	<b>70</b>	<b>521</b>	<b>490</b>	<b>1582</b>
Other bank balances	3	3	3	3	3
<b>Cash on balance sheet</b>	<b>62</b>	<b>73</b>	<b>524</b>	<b>493</b>	<b>1585</b>

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Analyst holding in stock: **NO**

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