

Q3FY23 Update | Textile | 15 February 2023

# Dollar Industries Ltd.

**Growth pillars in place driven by project Lakshya**



*Dollar Industries Ltd (DIL), reported weak performance in Q3FY23, which was even lower than our estimates. Revenues in Q3FY23 declined by ~25.2% YoY led by a volume de-growth of ~32% YoY (volumes in 9mFY23 declined by ~6% YoY). Volumes in Q3FY23 were impacted due to volatility in the raw material prices which impacted primary sales. There was also an impact of high base of last year (pentup demand and channel filling) due to an expectation of increase in GST rates which resulted in preponment of demand from Q4FY22. Gross margins in Q3FY23 declined on account of consumption of high cost inventory. Since the raw material prices have now started to stabilise in a range company does not expect any further inventory related loss in Q4FY23. There has also been improvement visible in the sentiments of the distribution channel & thus management has guided for a topline growth of ~14%-15% YoY in Q4FY23 with EBITDA margin improvement on a QoQ basis. We expect performance of the company to improve on a QoQ basis from here onwards due to some stability in raw material 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 508 (20x FY25e EPS).*

## 9mFY23 Earnings Highlights

- In 9mFY23, the company reported sales increased by ~1.7% YoY, volumes declined by ~6% YoY. Average selling price increased by ~9% YoY.
- Gross margin for 9mFY23 declined by ~409 bps YoY to 30.1% due to volatility in raw material prices and impact of inventory loss due to consumption of high cost inventory.
- EBITDA margin for 9mFY23 declined to 6.8% vs 16.9% YoY. EBITDA margins were impacted due to lower gross margin, higher advertisement expenditure & lower absorption of overheads.
- PAT for 9mFY23 declined by ~53% YoY to Rs 520 mn. Tax rate was lower at ~17.6% vs 25.5% 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 ~203 distributors upto 9mFY23 (14 distributors in Q3FY23) under the project Lakshya and target to bring ~70% of its distributors under project Lakshya by FY25.** Company has also on-boarded ~245 distributors (40 distributors in Q3FY23) under channel financing. 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 20x FY25e EPS (rolled over from Sep'24) of Rs 25.4, to arrive at a target price of Rs 508 per share and maintain our "Buy" rating.**

Y/ Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Net sales	2,853	3,815	-25.2%	3,404	-16.2%	3,433	-17%
Operating costs	2,659	3,172	-16.2%	3,101	-14.2%		
EBITDA	194	643	-69.8%	303	-36.0%	353	-45%
EBITDA Margin (%)	6.8%	16.9%	(1,005)Bps	8.9%	(210)Bps	10.3%	
Depreciation	48	42	12.8%	43	10.0%		
Interest	40	20	102.5%	39	3.3%		
Other income	6	15	-63.2%	4	40.7%		
PBT	112	596	-81.2%	225	-50.2%		
Provision for tax	25	152	-83.7%	46	-45.8%		
Effective tax rate (%)	22.0%	25.5%		20.2%			
Reported PAT	77	444	-82.6%	173	-55.2%	217	-64%
PAT Margin (%)	2.7%	11.6%	(891)Bps	5.1%	(237)Bps	6.3%	

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	14,069	4.2%	1,252	8.9%	706	-52.0%	12.4	10.5%	9.2%	28.4	16.9
FY24e	15,719	11.7%	1,933	12.3%	1,232	74.7%	21.7	16.4%	14.3%	16.2	10.7
FY25e	17,470	11.1%	2,219	12.7%	1,441	16.9%	25.4	17.1%	15.7%	13.9	9.2

Source: Company, SMIFS Institutional Research Estimates

Rating: Buy Upside: 44%  
 Current Price: 353 Target Price: 508

### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 708

### Market data

Bloomberg: DOLLAR IN  
 52-week H/L (Rs): 639/328  
 Mcap (Rs bn/USD bn): 20.02/0.24  
 Shares outstanding (mn): 56.7  
 Free float: 27.09%  
 Avg. daily vol. 3mth (in '000): 42.75  
 Face Value (Rs): 2  
 Source: Bloomberg, SMIFS Research

### Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	72.9	72.9	72.9	72.9
FIIIs	0.4	0.5	0.5	0.3
DIIIs	2.35	2.1	1.7	1.7
Public/Other	24.3	24.5	25.0	25.1

### Promoters Pledging (%)

Pledge: 0 0 0 0  
 Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
Nifty 50	0.3%	-2.1%	3.8%	48.7%
Nifty 500	-2.0%	-4.1%	1.6%	50.9%
Dollar	-13.0%	-19.2%	-35.7%	134.3%

\*as on 15<sup>th</sup>, Feb 2023; Source: AceEquity, SMIFS research

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## Q3FY23 – Key takeaways from the management call

### Guidance:

- ✓ Management has guided for a topline growth of ~14%-15% YoY in Q4FY23 and EBIDTA margin improvement on sequential basis.
- ✓ **Management has maintained its goal to reach sales of Rs 20 bn by FY25 with EBIDTA margin of ~16%-17%.**

### Q3FY23 – Highlights:

- ✓ In Q3FY23 company reported a volume de-growth of ~32% YoY. In 9mFY23 reported volume de-growth of ~6% YoY.
- ✓ Gross Margins were impacted in Q3FY23 due to consumption of high cost raw material inventory. Now since the company has optimized the high cost inventory, it does not expect any inventory related loss in Q4FY23.
- ✓ Cotton prices are now in the range of ~Rs 60,000 to Rs 65,000/candy, management does not expect any significant movement in cotton prices. Yarn prices are now stable at ~Rs 280/kg, expect yarn prices to be stable at the current levels.
- ✓ **Channel inventory has now been reduced due to lower volume offtake by the dealers in Q3FY23, with stability in raw material prices expect good offtake from the distribution network in Q4FY23 and beyond.**
- ✓ **Recently company has conducted overseas dealer conference where it has received positive response from the dealers which provides confidence of better performance of the company in Q4FY23.**
- ✓ In 9mFY23 sales from thermal products have reported a decline by ~25% YoY at ~Rs 750 mn.
- ✓ Contribution of thermal products sales in 9mFY23 was ~7.7%.
- ✓ Revenue contribution by category for 9mFY23: Dollar Man ~41%, Dollar Always ~38%, Dollar Women ~9.5%, Dollar Thermal ~7.7%, Force Next-2.9%
- ✓ **Company is witnessing good traction in the athleisure range of products as its contribution in sales has increased to ~12% vs ~11% YoY.**
- ✓ Breakup of revenue for 9mFY23 geography wise: North-43%, West-22%, East-26%, South-9%. Share of business has increased from South India.
- ✓ Company also plans to launch new product range in women's athleisure segment and mens active wear in Force NXT brand. Company's newly launched products in the women's brassier segment has received good response from the market and it expects sales to increase going forward.
- ✓ In 9mFY23 company incurred advertisement expenditure of Rs 808 mn ie ~8.2% of sales as compared to Rs 505 mn ie ~5.2% YoY. **Company plans to have advertisement expenditure of ~5.5%-6% of sales in FY24.**
- ✓ **Company generated a positive cash flow of ~Rs 980 mn from operating activities in 9mFY23 as compared to ~Rs 9.20 mn in 9mFY22.**
- ✓ Company is in process of transitioning from Oracle ERP to SAP from April 1, 2023.

### EBOs:

- ✓ Company has opened 12 EBO's till now of which 2 each in Delhi, Madhya Pradesh & Punjab and one each in UP, Rajasthan, Maharashtra, Gujarat & Haryana. Plans to open another ~5-6 EBO's by Q4FY23. **Further it 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 ~125 distributors under channel financing in 9mFY23 and now has ~245 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 9mFY23 company has added ~95 distributors and now has enrolled a total of ~203 distributors under this project. **Company targets to have ~70% of its distributors under project Lakshya by end of FY25. In 9mFY23 revenue contribution from distributor under Lakshya project was ~17% vs ~7% YoY.**
- ✓ In 9mFY23 have achieved sales of ~Rs 1.52 bn from distributors under project Lakshya.
- ✓ **Company will now start mapping of retail network in two new state of Tamil Nadu and Kerala.**

#### Working Capital:

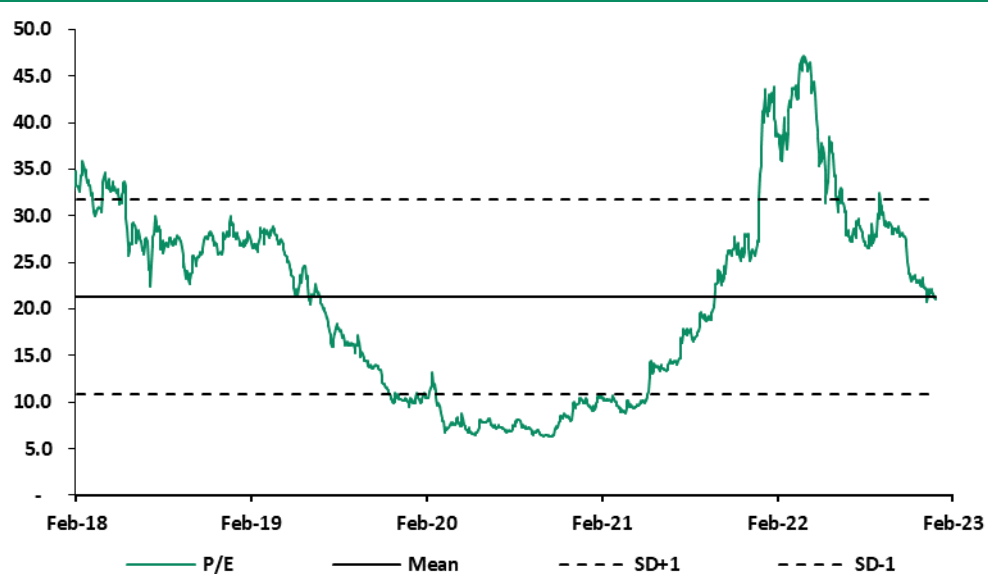
- ✓ Going forward company plans to improve the net working capital days further led by project lakshya and channel financing.

## 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 (rolled over from Sep'24) of Rs 25.4, to arrive at a target price of Rs 508 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: AceEquity, SMIFS Institutional research

## Quarterly financials, operating metrics and key performance indicators

**Fig 2: Quarterly Financials (Consolidated)**

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Sales</b>	<b>3,083</b>	<b>2,046</b>	<b>3,907</b>	<b>3,815</b>	<b>3,730</b>	<b>3,614</b>	<b>3,404</b>	<b>2,853</b>
COGS	2,008	1,235	2,557	2,510	2,531	2,390	2,358	1,994
Employee Costs	137	128	155	170	187	185	185	189
Other Expenditure	627	329	548	492	458	667	558	476
<b>EBITDA</b>	<b>311</b>	<b>353</b>	<b>648</b>	<b>643</b>	<b>554</b>	<b>372</b>	<b>303</b>	<b>194</b>
Depreciation	49	38	40	42	45	43	43	48
Interest	13	14	17	20	46	30	39	40
Other Income	21	9	3	15	38	26	4	6
<b>PBT</b>	<b>271</b>	<b>311</b>	<b>594</b>	<b>596</b>	<b>500</b>	<b>325</b>	<b>225</b>	<b>112</b>
Tax	70	79	151	152	129	47	46	25
Tax rate (%)	25.8%	25.6%	25.4%	25.5%	25.8%	14.3%	20.2%	22.0%
<b>Reported PAT</b>	<b>201</b>	<b>231</b>	<b>443</b>	<b>444</b>	<b>371</b>	<b>279</b>	<b>180</b>	<b>87</b>
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	-7	-6	-6	-1	-7	-9	-7	-10
<b>Adjusted PAT</b>	<b>194</b>	<b>225</b>	<b>438</b>	<b>444</b>	<b>364</b>	<b>270</b>	<b>173</b>	<b>77</b>
<b>YoY Growth (%)</b>								
Revenue	29.7%	28.3%	51.8%	22.4%	21.0%	76.7%	-12.9%	-25.2%
EBITDA	48.3%	23.3%	84.3%	49.0%	77.9%	5.3%	-53.2%	-69.8%
PAT	58.8%	39.3%	98.7%	59.7%	88.3%	19.6%	-60.5%	-82.6%
<b>QoQ Growth (%)</b>								
Revenue	-1.1%	-33.6%	91.0%	-2.4%	-2.2%	-3.1%	-5.8%	-16.2%
EBITDA	-27.9%	13.5%	83.3%	-0.7%	-13.9%	-32.8%	-18.5%	-36.0%
Adj. PAT	-30.3%	16.5%	94.1%	1.4%	-17.8%	-26.0%	-35.9%	-55.2%
<b>Margin (%)</b>								
Gross margin (%)	34.9%	39.6%	34.5%	34.2%	32.1%	33.9%	30.7%	30.1%
Employee cost/ revenue (%)	4.4%	6.3%	4.0%	4.4%	5.0%	5.1%	5.4%	6.6%
Other expenses/revenue (%)	20.3%	16.1%	14.0%	12.9%	12.3%	18.5%	16.4%	16.7%
EBITDA margin (%)	10.1%	17.3%	16.6%	16.9%	14.8%	10.3%	8.9%	6.8%
PAT margin (%)	6.5%	11.3%	11.3%	11.6%	9.9%	7.7%	5.3%	3.1%

Source: Company, SMIFS Institutional Research Estimates

**Fig 3: Change in estimates**

Rs mn	New Estimates			Old Estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	14,069	15,719	17,470	15,049	17,054	19,234	-7%	-8%	-9%
Gross profit	4,453	5,219	5,852	4,891	5,849	6,636	-9%	-11%	-12%
Gross margin (%)	31.7%	33.2%	33.5%	32.5%	34.3%	34.5%	-85 Bps	-110 Bps	-100 Bps
EBITDA	1,252	1,933	2,219	1,979	2,708	3,150	-37%	-29%	-30%
EBITDA margin (%)	8.9%	12.3%	12.7%	13.2%	15.9%	16.4%	-425 Bps	-358 Bps	-368 Bps
PAT	706	1,232	1,441	1,316	1,844	2,171	-46%	-33%	-34%
EPS (Rs)	12	22	25	23	33	38			

Source: Company, SMIFS research estimates

## Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Net Sales</b>	<b>10,370</b>	<b>13,503</b>	<b>14,069</b>	<b>15,719</b>	<b>17,470</b>
COGS	6,561	8,834	9,616	10,501	11,617
% of sales	63.3%	65.4%	68.4%	66.8%	66.5%
Employee Expenditure	446	640	753	817	891
% of sales	4.3%	4.7%	5.4%	5.2%	5.1%
Other Exp.	1982	1832	2448	2468	2743
% of sales	19.1%	13.6%	17.4%	15.7%	15.7%
<b>EBITDA</b>	<b>1,381</b>	<b>2,198</b>	<b>1,252</b>	<b>1,933</b>	<b>2,219</b>
Other Income	35	65	42	47	52
Depreciation & Amortisation	155	166	199	213	234
<b>EBIT</b>	<b>1,261</b>	<b>2,097</b>	<b>1,096</b>	<b>1,767</b>	<b>2,037</b>
Interest Expenses	88	96	141	73	64
<b>Core PBT</b>	<b>1,138</b>	<b>1,936</b>	<b>913</b>	<b>1,647</b>	<b>1,921</b>
<b>PBT</b>	<b>1,173</b>	<b>2,001</b>	<b>955</b>	<b>1,694</b>	<b>1,973</b>
Tax	300	512	220	434	505
Tax Rate (%)	25.6%	25.6%	23.0%	25.6%	25.6%
Extraord. Items	0	0	0	0	0
<b>Reported PAT</b>	<b>873</b>	<b>1490</b>	<b>735</b>	<b>1261</b>	<b>1468</b>
<b>Share of profit/ (loss) in JV</b>	<b>-20</b>	<b>-19</b>	<b>-30</b>	<b>-28</b>	<b>-27</b>
<b>Adjusted PAT</b>	<b>853</b>	<b>1471</b>	<b>706</b>	<b>1232</b>	<b>1441</b>

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
<b>Growth ratios (%)</b>					
Net sales	7.2%	30.2%	4.2%	11.7%	11.1%
EBITDA	32.0%	59.2%	-43.0%	54.4%	14.7%
Adjusted PAT	48.8%	72.4%	-52.0%	74.7%	16.9%
<b>Margin Ratio (%)</b>					
Gross Profit	36.7%	34.6%	31.7%	33.2%	33.5%
EBITDA	13.3%	16.3%	8.9%	12.3%	12.7%
EBIT	11.8%	15.0%	7.5%	10.9%	11.4%
Core PBT	11.0%	14.3%	6.5%	10.5%	11.0%
Adj. PAT	8.2%	10.9%	5.0%	7.8%	8.2%
<b>Return Ratio (%)</b>					
ROE	17.3%	24.5%	10.5%	16.4%	17.1%
ROCE	13.6%	19.6%	9.2%	14.3%	15.7%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	7.3	6.7	5.0	5.0	5.1
Adj OCF / PAT (%)	145	-6	268	96	85
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
<b>Solvency Ratio (%)</b>					
Debt-equity	0.2	0.3	0.2	0.1	0.1
Net Debt-equity	0.2	0.3	0.2	0.1	0.0
Gross Debt/EBITDA	0.9	0.9	1.3	0.4	0.3
Current ratio	2.5	2.2	2.3	2.8	2.9
Interest coverage ratio (x)	14.0	21.1	7.5	23.6	30.9
<b>Dividend</b>					
DPS (Rs)	3.0	3.0	3.0	5.0	9.0
Dividend Payout (%)	20%	12%	24%	23%	35%
Dividend Yield (%)	1.8%	0.7%	0.8%	1.4%	2.5%
<b>Per share (Rs)</b>					
EPS (Reported)	15.0	25.9	12.4	21.7	25.4
Adj. EPS	15.0	25.9	12.4	21.7	25.4
CEPS	17.8	28.9	15.9	25.5	29.5
BV	95.7	118.3	127.5	143.6	158.7
<b>Valuation</b>					
P/E	11.2	15.7	28.4	16.2	13.9
P/BV	1.8	3.4	2.8	2.5	2.2
EV/EBITDA	7.8	11.4	16.9	10.7	9.2
EV/Sales	1.0	1.9	1.5	1.3	1.2
Adj M.Cap /Core PBT	8.4	11.9	21.4	12.0	10.2
Adj M.Cap /Adj OCF	7.7	-249.0	10.3	16.7	16.1

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Sources of funds</b>					
Capital	113	113	113	113	113
Reserves & Surplus	5233	6628	7119	8033	8885
<b>Shareholders' Funds</b>	<b>5,346</b>	<b>6,741</b>	<b>7,294</b>	<b>8,216</b>	<b>9,072</b>
<b>Total Debt</b>	<b>1240</b>	<b>2057</b>	<b>1657</b>	<b>857</b>	<b>757</b>
Other non-current liabilities	72	98	98	98	98
<b>Total Liabilities</b>	<b>6,659</b>	<b>8,896</b>	<b>9,048</b>	<b>9,170</b>	<b>9,926</b>
<b>Application of funds</b>					
Net Block	788	813	1797	1885	1952
Capital WIP	135	496	135	135	135
Investments	6	3	14	16	17
Non-current Asset	205	322	345	348	352
Inventories	3339	4752	4086	4307	4547
Sundry Debtors	3309	4021	3662	3876	4308
Other Current Assets	505	646	667	714	776
Cash & Bank Balances	73	5	489	235	441
<b>Total Current Assets</b>	<b>7,227</b>	<b>9,424</b>	<b>8,903</b>	<b>9,131</b>	<b>10,071</b>
Sundry Creditors	1,395	1,761	1,735	1,938	2,154
Other Current Liabilities	307	401	412	407	448
<b>Total Current Liabilities</b>	<b>1,702</b>	<b>2,162</b>	<b>2,146</b>	<b>2,345</b>	<b>2,601</b>
<b>Net Current Assets</b>	<b>5,524</b>	<b>7,262</b>	<b>6,757</b>	<b>6,786</b>	<b>7,470</b>
<b>Total assets</b>	<b>6,659</b>	<b>8,896</b>	<b>9,048</b>	<b>9,170</b>	<b>9,926</b>

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit before WC changes</b>					
	<b>1437</b>	<b>2281</b>	<b>1294</b>	<b>1981</b>	<b>2271</b>
Net change in working capital	186	-1831	954	-287	-483
Income tax paid	-299	-446	-220	-434	-505
<b>Cash flow from operating activities (a)</b>	<b>1324</b>	<b>3</b>	<b>2029</b>	<b>1259</b>	<b>1283</b>
<b>Adjusted OCF</b>	<b>1236</b>	<b>-93</b>	<b>1888</b>	<b>1187</b>	<b>1219</b>
Capital expenditure	-228	-576	-800	-300	-300
Adjusted Free Cash Flow	1096	-571	1229	959	983
<b>Cash flow from investing activities (b)</b>	<b>-219</b>	<b>-619</b>	<b>-800</b>	<b>-300</b>	<b>-300</b>
Debt Issuance (repayment)	-864	816	-400	-800	-100
Interest & Lease expenses	-139	-133	-141	-73	-64
Dividend Paid	-91	-136	-204	-340	-613
<b>Cash flow from financing activities (c)</b>	<b>-1094</b>	<b>547</b>	<b>-745</b>	<b>-1213</b>	<b>-777</b>
<b>Net change in cash (a+b+c)</b>	<b>11</b>	<b>-68</b>	<b>484</b>	<b>-254</b>	<b>206</b>

Source: Company, SMIFS Institutional Research Estimates

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Analyst holding in stock: **NO**

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