



# Dollar Industries Ltd.

**Strong performance; Growth pillar in place driven by project Lakshya**

*Dollar Industries Ltd (DIL), reported revenue in Q4FY22 grew by ~21% YoY (volume decline of ~2% YoY). Growth in revenue was mainly on account of price hikes taken by the company. In FY22 company reported revenue grew by ~30% YoY backed by a volume growth of ~9% YoY. Management has guided for a topline growth of ~15%-17% YoY for FY23e with EBIDTA margin in the range of ~17%-17.5%. 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 ~142 distributors' upto FY22 under the project Lakshya and target to bring ~70% of its distributor under project Lakshya by FY25. 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 industry. 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 755 (20x FY24e EPS).*

## Strong quarterly performance

- In Q4FY22, the company reported a ~21% YoY increase in sales to Rs 3730 mn, with a volume decline of ~2% YoY. Growth in topline was mainly led by price increases taken by the company in order to pass on higher raw material prices. In FY22 company reported sales of Rs 13503 mn up by ~30% YoY backed by volume growth of ~9% YoY.
- Gross margin for Q4FY22 & FY22 declined by ~273 bps & ~215 bps YoY respectively. Gross margins were impacted due to a steep increase in cotton yarn prices. Company has been taking regular price increases in order to pass on increase cost of raw materials. Company has taken a price increase of ~4.5% from April 1, 2022 and plans to take another price increase sometime in mid-June 2022.
- EBITDA margin for Q4FY22 & FY22 increased by ~475 bps & ~296 bps YoY respectively. Expansion in margins was on account of lower other expenditure and operating leverage benefit. Decline in other expenditure was mainly on account of lower advertisement expenditure for FY22 which stood at 4.7% vs 7.6% YoY of sales.
- Company reported PAT of Rs 364 mn up ~88% YoY in Q4FY22. For FY22 PAT grew 72% YoY to Rs 1471 mn, driven by a higher top-line growth, lower advertisement expenditure and operating leverage benefit.

## 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 structure shift from unorganised to the organised sector. We expect DIL to benefit from this trend.
- At the current price the stock is trading at 11.4x FY24e EPS. We have valued the stock at 20x FY24e EPS of Rs 37.8, **to arrive at a target price of Rs 755, which provides an upside of ~75% based on the current market price.**

Y/E Mar (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net sales	3,730	3,083	21.0%	3,821	-2.4%
Operating costs	3,176	2,772	14.6%	3,177	0.0%
EBITDA	554	311	77.9%	643	-13.9%
EBITDA Margin (%)	14.8%	10.1%	475 Bps	16.8%	(198)Bps
Depreciation	45	49	-8.2%	42	5.7%
Interest	46	13	257.7%	20	136.2%
Other income	38	21	78.2%	15	152.9%
PBT	500	271	84.9%	596	-16.0%
Provision for tax	129	70	85.5%	152	-14.9%
Effective tax rate (%)	25.8%	25.8%	9 Bps	25.5%	36 Bps
PAT (Reported)	364	194	88.3%	444	-17.8%
NPM (%)	9.8%	6.3%	349 Bps	11.6%	(184)Bps

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT (Adj)	YoY (%)	EPS (Adj)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	9,671	-6.0%	1,046	10.8%	573	-22.1%	10.1	13.5%	13.7%	42.7	25.4
FY21	10,370	7.2%	1,381	13.3%	853	48.8%	15.0	17.3%	18.3%	28.7	18.6
FY22	13,503	30.2%	2,198	16.3%	1,471	72.4%	25.9	24.5%	26.3%	16.7	12.1
FY23e	15,673	16.1%	2,570	16.4%	1,758	19.5%	31.0	23.6%	26.3%	13.9	9.9
FY24e	18,034	15.1%	3,030	16.8%	2,141	21.8%	37.8	23.5%	28.9%	11.4	8.0

Source: Company, SMIFS Research

Rating: Buy Upside: 75%  
 Current Price: 432 Target Price: 755

### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 759

### Market data

Bloomberg: DOLLAR IN  
 52-week H/L (Rs): 666/297  
 Mcap (Rs bn/USD mn): 24.5/318  
 Shares outstanding (mn): 56.7  
 Free float: 27.09%  
 Avg. daily vol. 3mth (in '000): 33.94  
 Face Value (Rs): 2  
 Group: S&P BSE SmallCap  
 Source: Bloomberg, SMIFS Research

### Shareholding pattern (%)

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	72.91	72.91	72.91	72.91
FIIIs	0.30	0.20	0.13	0.00
DIIIs	1.69	1.69	1.68	3.39
Public/Other	25.10	25.19	25.27	23.69

Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
BSE SmallCap	-12.5	-5.0	7.6	70.9
Dollar	-25.9	-17.5	41.2	79.1

\*as on 25<sup>th</sup> May 2022; Source: AceEquity, SMIFS research

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## Q4FY22 – Key takeaways from the management call

### Guidance:

- ✓ Management has guided for a topline growth of ~15%-17% in FY23 with EBIDTA margin in the range of ~17%-17.5%.
- ✓ Management maintained its goal to reach sales of Rs 20 bn by FY25.

### Q4FY22 & FY22 – Highlights:

- ✓ Revenue contribution by category for FY22: Dollar Man-43%, Dollar Always-36%, Dollar Women-8%, Dollar Thermal-8%, Force Next-3%, Dollar Junior-1%, Force Gowear-1%
- ✓ Breakup of revenue for FY22 geography wise: North-44%, West-25%, East-24%, South-7%.
- ✓ Share of revenue from Modern Retail was ~4%, target is to increase to ~8% by FY25.
- ✓ Currently company is exporting to ~15+ countries and export mix was ~10% of revenue in FY22, target is to increase export markets and increase share of exports to ~11% of revenue by FY25.
- ✓ In FY22 contribution of athleisure wear was ~12% of sales, management expect strong growth in the athleisure wear segment going forward.
- ✓ In FY22 advertisement expenditure was ~4.7% of sales, plan is to increase it to ~5.5% of sales in FY23.
- ✓ In Q4FY22 company reported a volume decline of ~2% YoY and for FY22 volumes increased by ~9% YoY. Company has taken a cumulative price increase of ~20% YoY in FY22 and ~4.5% in April 2022. Further company plans to take another price increase sometime in mid-June 2022 in order to pass on increased raw material prices.
- ✓ In Q4FY22 company has launched the brassier range of products in states of Uttar Pradesh and East India (Bihar, Jharkhand, Orissa, West Bengal). Initial response has been good from the retailers.
- ✓ Company has signed actress Yami Gautam as the brand ambassador for Dollar Women segment.

### 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 spinning capacity & integrated warehouse in October 2022 and November 2022 respectively.

### 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. Company plans to open ~25-30 EBO's in the region of Uttar Pradesh and Rajasthan by FY23 end. Further it targets to have ~125 EBO's by FY25.

### Channel Financing:

- ✓ Company has enrolled ~150 distributors under channel financing at the end of FY22. Company targets to bring ~60% of its distributors under channel financing by FY25.

### Project Lakshya Updates:

- ✓ At the end of FY22, company has enrolled ~142 distributors under this project. Company targets to have ~70% of its distributors under project Lakshya by end of FY25.
- ✓ Currently mapping of retail network is going on in North East, Andhra Pradesh, Goa, Bihar, Assam & Haryana.

### Working Capital:

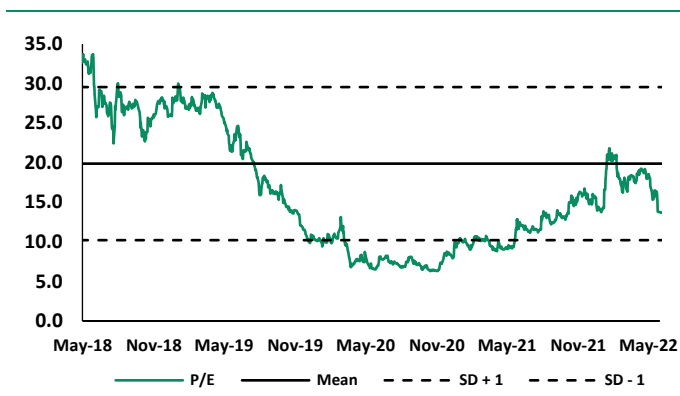
- ✓ In FY22 company has improved its net working capital days by ~24 days from FY21. Plan is to improve working capital further led by project lakshya and channel financing.

## 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 structure shift from unorganised to the organised sector. We expect DIL to benefit from this trend.
- ✓ At the current price stock is trading at 11.4x FY24e EPS. We have valued the stock at 20x on FY24e EPS of Rs 37.8, to arrive at a target price of Rs 755, **which provides an upside of ~75% based on the current market price**

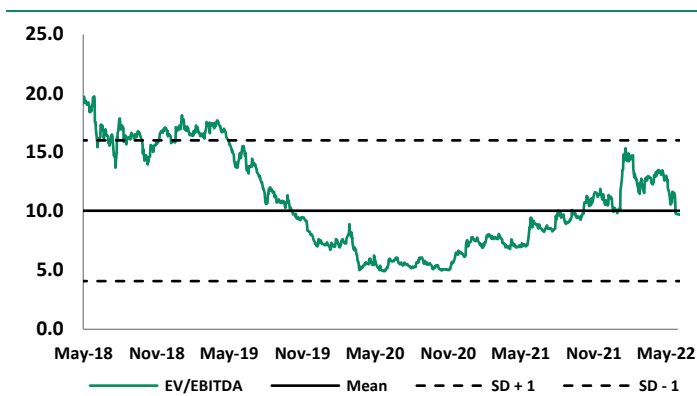
**Key risks** are (1) Volatile raw material prices (2) Competition from both organised & un-organised players (3) Any increase in GST rates (4) Delay in implementation of project Lakshya

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



Source: AceEquity, SMIFS Institutional research

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Institutional research

## Quarterly financials, operating metrics and key performance indicators

### Quarterly Financials (Consolidated)

Y/E March (Rs Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Sales</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>	<b>3,730</b>
COGS	970	1,590	1,994	2,008	1,235	2,557	2,510	2,531
<b>Gross Profit</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>	<b>1,199</b>
Employee Costs	80	109	120	137	128	155	170	187
Other Expenditure	258	524	573	627	329	548	498	458
<b>EBITDA</b>	<b>287</b>	<b>351</b>	<b>432</b>	<b>311</b>	<b>353</b>	<b>648</b>	<b>643</b>	<b>554</b>
Depreciation	33	35	38	49	38	40	42	45
Interest	34	23	18	13	14	17	20	46
Other Income	2	5	6	21	9	3	15	38
Exceptional Items	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>220</b>	<b>299</b>	<b>383</b>	<b>271</b>	<b>311</b>	<b>594</b>	<b>596</b>	<b>500</b>
Tax	56	76	99	70	79	151	152	129
Tax rate (%)	25.4%	25.3%	25.8%	25.8%	25.6%	25.4%	25.5%	25.8%
<b>Reported PAT</b>	<b>162</b>	<b>220</b>	<b>278</b>	<b>194</b>	<b>225</b>	<b>438</b>	<b>444</b>	<b>364</b>
<b>YoY Growth (%)</b>								
Revenue	-31.7%	5.8%	22.4%	29.7%	28.3%	51.8%	22.5%	21.0%
EBITDA	6.2%	50.8%	29.6%	48.3%	23.3%	84.3%	49.0%	77.9%
PAT	24.2%	65.5%	47.5%	58.8%	39.3%	98.7%	59.7%	88.3%
<b>QoQ Growth (%)</b>								
Revenue	-32.9%	61.4%	21.1%	-1.1%	-33.6%	91.0%	-2.2%	-2.4%
EBITDA	36.5%	22.6%	22.8%	-27.9%	13.5%	83.3%	-0.7%	-13.9%
Adj. PAT	32.8%	36.0%	26.1%	-30.3%	16.5%	94.1%	1.4%	-17.8%
<b>Margin (%)</b>								
Gross margin (%)	39.2%	38.2%	36.1%	34.9%	39.6%	34.5%	34.3%	32.1%
EBITDA margin (%)	18.0%	13.7%	13.8%	10.1%	17.3%	16.6%	16.8%	14.8%
PAT margin (%)	10.2%	8.6%	8.9%	6.3%	11.0%	11.2%	11.6%	9.8%

Source: Company, SMIFS research estimates

## Financial Statements (Consolidated)

Income Statement					
March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>9,671</b>	<b>10,370</b>	<b>13,503</b>	<b>15,673</b>	<b>18,034</b>
COGS	6,340	6,561	8,834	10,250	11,758
% of sales	65.6%	63.3%	65.4%	65.4%	65.2%
<b>Gross Profit</b>	<b>3,331</b>	<b>3,809</b>	<b>4,670</b>	<b>5,423</b>	<b>6,276</b>
Employee Expenditure	421	446	640	705	794
% of sales	4.4%	4.3%	4.7%	4.5%	4.4%
Other Exp.	1864	1982	1832	2147	2453
% of sales	19.3%	19.1%	13.6%	13.7%	13.6%
<b>EBITDA</b>	<b>1,046</b>	<b>1,381</b>	<b>2,198</b>	<b>2,570</b>	<b>3,030</b>
EBITDA Margin (%)	10.8%	13.3%	16.3%	16.4%	16.8%
Depreciation & Amortisation	142	155	166	199	213
<b>EBIT</b>	<b>904</b>	<b>1,226</b>	<b>2,032</b>	<b>2,372</b>	<b>2,816</b>
Interest Expenses	153	88	96	79	19
<b>EBT</b>	<b>751</b>	<b>1,138</b>	<b>1,936</b>	<b>2,292</b>	<b>2,797</b>
Other Income	47	35	65	71	81
<b>PBT</b>	<b>798</b>	<b>1,173</b>	<b>2,001</b>	<b>2,363</b>	<b>2,878</b>
Tax-Total	203	300	512	605	737
Effective tax rate (%)	25.5%	25.6%	25.6%	25.6%	25.6%
Extraord. items - Adj.	0	0	0	0	0
<b>Reported PAT</b>	<b>573</b>	<b>853</b>	<b>1471</b>	<b>1758</b>	<b>2141</b>

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of funds</b>					
Capital	113	113	113	113	113
Reserves & Surplus	4536	5315	6597	8082	9884
<b>Shareholders' Funds</b>	<b>4,649</b>	<b>5,428</b>	<b>6,710</b>	<b>8,196</b>	<b>9,997</b>
Minority Interest					
Total Debt	2100	1240	2057	1057	257
<b>Total Liabilities</b>	<b>6,749</b>	<b>6,668</b>	<b>8,767</b>	<b>9,253</b>	<b>10,254</b>
<b>Application of funds</b>					
Net Block	689	788	813	1,797	1,885
Capital WIP	141	135	496	135	135
Non-current Asset	259	211	348	364	371
<b>Net Fixed Assets</b>	<b>1,088</b>	<b>1,134</b>	<b>1,657</b>	<b>2,296</b>	<b>2,391</b>
Inventories	3050	3339	4752	4509	4941
Sundry Debtors	3601	3309	4021	4079	4447
Other Current Assets	438	505	646	743	819
Cash & Bank Balances	62	73	5	184	513
<b>Total Current Assets</b>	<b>7,150</b>	<b>7,227</b>	<b>9,424</b>	<b>9,515</b>	<b>10,720</b>
Creditors	1,203	1,395	1,761	1,932	2,223
Other Current Liabilities	245	327	438	490	497
Provisions	40	53	61	61	61
<b>Total Current Liabilities</b>	<b>1,489</b>	<b>1,775</b>	<b>2,260</b>	<b>2,483</b>	<b>2,781</b>
<b>Net Current Assets</b>	<b>5,661</b>	<b>5,452</b>	<b>7,164</b>	<b>7,032</b>	<b>7,938</b>
<b>Total assets</b>	<b>6,749</b>	<b>6,668</b>	<b>8,767</b>	<b>9,253</b>	<b>10,254</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Growth ratios (%)</b>					
Net sales	-6.0%	7.2%	30.2%	16.1%	15.1%
EBITDA	-22.9%	32.0%	59.2%	16.9%	17.9%
Reported PAT	-22.1%	48.8%	72.4%	19.5%	21.8%
<b>Margin Ratio (%)</b>					
Gross Margin	34.4%	36.7%	34.6%	34.6%	34.8%
EBITDA Margin	10.8%	13.3%	16.3%	16.4%	16.8%
EBIT Margin	9.3%	11.8%	15.0%	15.1%	15.6%
PBT Margin	8.3%	11.3%	14.8%	15.1%	16.0%
PAT Margin	5.9%	8.2%	10.9%	11.2%	11.9%
<b>Return Ratio (%)</b>					
ROE	13.5%	17.3%	24.5%	23.6%	23.5%
ROCE	13.7%	18.3%	26.3%	26.3%	28.9%
<b>Turnover Ratio days (days)</b>					
Gross Block Turnover (x)	11.7	11.2	10.3	8.1	8.9
Inventory Period	115	118	109	105	100
Debtors Period	136	116	99	95	90
Creditors	45	49	43	45	45
Cash Conversion Cycle	206	185	166	155	145
<b>Solvency Ratio (%)</b>					
Debt-equity (x)	0.5	0.2	0.3	0.1	0.0
Net Debt-equity (x)	0.4	0.2	0.3	0.1	0.0
Liquidity ratio (x)	2.0	2.5	2.2	2.7	3.6
Interest coverage ratio (x)	5.9	14.0	21.1	29.9	146.3
<b>Per share (Rs)</b>					
Adjusted EPS	10.1	15.0	25.9	31.0	37.8
CEPS	12.6	17.8	28.9	34.5	41.5
Book value	82.0	95.7	118.3	144.5	176.3
Dividend per share	1.7	3.0	3.0	4.0	5.0
Dividend Payout (%)	17%	20%	12%	13%	13%
Dividend Yield (%)	0.4%	0.7%	0.7%	0.9%	1.2%
<b>Valuation</b>					
P/E	42.7	28.7	16.7	13.9	11.4
P/BV	5.3	4.5	3.7	3.0	2.5
EV/EBITDA	25.4	18.6	12.1	9.9	8.0
Market Cap/Sales	2.5	2.4	1.8	1.6	1.4

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Operating profit before WC changes</b>					
Operating profit before WC changes	1113	1437	2281	2641	3111
Net change in working capital	-338	186	-1831	295	-584
Income tax paid (net)	-246	-299	-446	-605	-737
<b>Cash flow from operating activities (a)</b>	<b>529</b>	<b>1324</b>	<b>3</b>	<b>2331</b>	<b>1790</b>
Capital expenditure	-225	-228	-576	-800	-300
Free Cash Flow	304	1096	-571	1531	1490
<b>Cash flow from investing activities (b)</b>	<b>-251</b>	<b>-219</b>	<b>-619</b>	<b>-801</b>	<b>-301</b>
<b>Cash flow from financing activities (c)</b>	<b>-426</b>	<b>-1094</b>	<b>547</b>	<b>-1351</b>	<b>-1160</b>
Net change in cash (a+b+c)	-148	11	-68	179	329
Opening cash balance	207	59	70	2	181
<b>Ending cash balance</b>	<b>59</b>	<b>70</b>	<b>2</b>	<b>181</b>	<b>510</b>

Source: Company, SMIFS Research Estimates

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