

Dollar Industries Ltd.

Growth pillars in place driven by project Lakshya

Dollar Industries Ltd (DIL), reported weak performance in Q4FY23, which was even lower than our estimates. In Q4FY23 company reported volume growth of ~37% YoY, led by increased sales volume in the economy segment. Revenue in FY23 increased by ~3.8% YoY led by volume growth of ~5.5% YoY. Sales and margins in FY23 were impacted due to huge volatility in raw material prices & higher advertisement expenditure. Gross margins in Q4FY23 & FY23 declined on account of consumption of high cost inventory. Since the raw material prices have now stabilised in a range company does not expect any further inventory related loss in FY24e. There has also been improvement visible in the sentiments of the distribution channel & thus management has guided for a topline growth of ~12%-13% YoY in FY24e with EBITDA margin in the range of ~11%-12%. We expect performance of the company to improve from Q2FY24 onwards due to stability in raw material prices. Sales in Q1FY24 may be impacted due the impact of channel re-stocking done by the distribution channel in Q4FY23. We remain positive on the company's mid-to long term potential and thus maintain our 'Buy' rating on the stock.

FY23 Earnings Highlights

- In FY23, the company reported sales increased by ~3.8% YoY, volumes increased by ~5.5% YoY. Average selling price declined by ~2% YoY.
- Gross margin FY23 declined by ~457 bps YoY to 29.6% due volatility in raw material prices and impact of inventory loss due consumption of high cost inventory.
- EBITDA margin for FY23 declined to 7.0% vs 16.4% YoY. EBITDA margins were impacted mainly due to lower gross margin and higher advertisement expenditure.
- PAT for FY23 declined by ~64% YoY to Rs 525 mn. Tax rate was lower at ~18.5% vs 25.6% 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 ~229 distributors upto FY23 (87 distributors in FY23) under the project Lakshya and target to bring ~70% of its distributors under project Lakshya by FY25.** Company has also on-boarded ~270 distributors (~120 distributors in FY23) under channel financing by the end of FY23. **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 of Rs 23.3, to arrive at a target price of Rs 465 per share and maintain our "Buy" rating.**

Y/E Mar (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Q4FY23e	Var. (%)
Net sales	4,064	3,719	9.3%	2,853	42.4%	4,195	-3%
Operating costs	3,951	3,166	24.8%	2,659	48.6%		
EBITDA	113	554	-79.6%	194	-41.8%	383	-71%
EBITDA Margin (%)	2.8%	14.9%	(1,211)Bps	6.8%	(402)Bps	9.1%	
Depreciation	43	45	-4.9%	48	-10.8%		
Interest	34	46	-26.8%	40	-14.5%		
Other income	13	38	-66.9%	6	127.0%		
PBT	49	500	-90.2%	112	-56.4%		
Provision for tax	15	129	-88.5%	25	-39.6%		
Effective tax rate (%)	30.5%	25.8%		22.0%			
Reported PAT	6	364	-98.5%	77	-92.9%	186	-97%
PAT Margin (%)	0.1%	9.8%	(966)Bps	2.7%	(258)Bps	4.4%	

Source: Company, SMIFS Institutional Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	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	13,425	29.5%	2,198	16.4%	1,471	72.4%	25.9	24.5%	19.6%	15.7	11.4
FY23	13,938	3.8%	982	7.0%	524	-64.3%	9.2	8.4%	7.5%	48.9	27.7
FY24e	15,388	10.4%	1,693	11.0%	1,044	99.0%	18.4	14.2%	12.5%	19.3	12.5
FY25e	17,234	12.0%	2,034	11.8%	1,319	26.4%	23.3	15.7%	14.3%	15.3	10.1

Source: Company, SMIFS Institutional Research Estimates



Rating: Buy Upside: 31%
Current Price: 355 Target Price: 465

Earlier recommendation

Previous Rating: Buy
Previous Target Price: 508

Market data

Bloomberg: DOLLAR IN
52-week H/L (Rs): 553/311
Mcap (Rs bn/USD bn): 20.13/0.25
Shares outstanding (mn): 56.7
Free float: 27.09%
Avg. daily vol. 3mth (in '000): 142.86
Face Value (Rs): 2

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	73.1	72.9	72.9	72.9
FIIs	0.4	0.4	0.5	0.5
DIIIs	2.3	2.3	2.1	1.7
Public/Other	24.2	24.4	24.5	25.0

Promoters Pledging (%)

Pledge	0	0	0	0

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
Nifty 50	2.6	5.3	11.8	93.4
Nifty 500	3.6	6.7	11.6	101.5
Dollar	2.3	4.3	-24.2	214.9

*as on 31st, May 2023; Source: AceEquity, SMIFS research

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Q4FY23 – Key takeaways from the management call

Guidance:

- ✓ Management has guided for a topline growth of ~12%-13% YoY and EBIDTA margin in the range of ~11%-12% for FY24e.
- ✓ **Maintained its goal to reach sales of Rs 20 bn by FY25.**

Q4FY23 – Highlights:

- ✓ In Q4FY23 company reported a volume growth of ~37% YoY. Volume growth was driven by higher sales from economy brands where volume growth was ~53% YoY which led to overall reduction in average selling prices in Q4FY23.
- ✓ In FY23 reported volume growth of ~5.5% YoY.
- ✓ Gross Margins in FY23 were impacted due to volatility in raw material prices, 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 FY24e.
- ✓ In Q4FY23 company has taken a provision of ~Rs 50 mn towards sales made to Future Group.
- ✓ Cotton prices are now in the range of ~Rs 55,000 to Rs 60,000/candy, management does not expect any significant movement in cotton prices. Yarn prices are now stable and expect yarn prices to be stable at the current levels.
- ✓ **Company has taken a price cut of ~4%-5% in Q4FY23, as yarn prices are now stable so does not expect to take any further price cut in Q1FY24.**
- ✓ **In FY23 company has conducted overseas dealer conference, which has also led to higher other expenditure in FY23.**
- ✓ Revenue contribution by category for FY23: Dollar Man ~41.7%, Dollar Always ~39.8%, Dollar Women ~9.3%, Dollar Thermal ~5.4%, Force Next-3.2%
- ✓ **Company has witnessed good traction in the athleisure range of products as its contribution in sales has increased to ~13% vs ~12% YoY. Company has launched women athleisure wear range of products and is getting good initial response from the same.**
- ✓ Breakup of revenue for FY23 geography wise: North-44%, West-23%, East-25%, South-8%. Share of business has increased from South India.
- ✓ In FY23 company incurred advertisement expenditure of Rs 1.01 bn ie ~7.3% of sales as compared to Rs 0.63 bn ie ~4.7% YoY. **Company plans to have advertisement expenditure of ~6.5% of sales in FY24.**
- ✓ **Company generated a positive cash flow of ~Rs 1.36 bn from operating activities in FY23.**
- ✓ Company is in process of transitioning from Oracle ERP to SAP.

EBOs:

- ✓ Company has opened 14 EBO's till now of which 2 each in Delhi, Madhya Pradesh & Punjab and one each in UP, Rajasthan, Maharashtra, Gujarat, Haryana & Odisha. **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 ~120 distributors under channel financing in FY23 and now has ~270 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 FY23

company has added ~87 distributors and now has enrolled a total of ~229 distributors under this project. **Company targets to have ~70% of its distributors under project Lakshya by end of FY25. In FY23 revenue contribution from distributor under Lakshya project increased to ~19% vs ~8.3% YoY.**

- ✓ **Company expect to add ~140 new distributors under project Lakshya in FY24.**
- ✓ In FY23 have achieved sales of ~Rs 2.42 bn vs ~Rs 1.0 bn YoY from distributors under project Lakshya.
- ✓ In FY23 volume growth for distributor under Lakshya project was ~19%-20% YoY.
- ✓ **Company has now started mapping of retail network in Tamil Nadu and is in planning stage for Kerala.**

Working Capital:

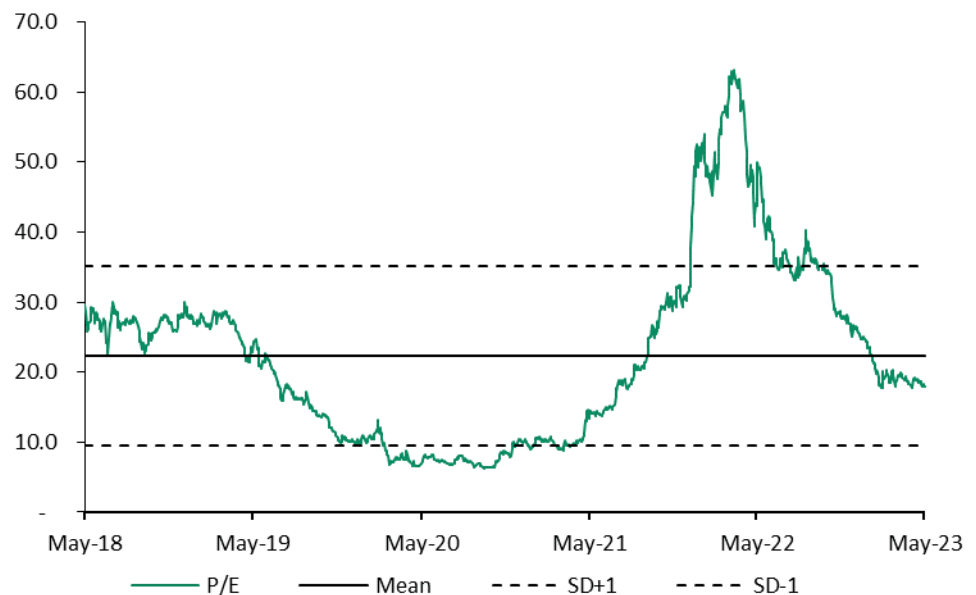
- ✓ Going forward company plans to improve the net working capital days further led by project lakshya and channel financing.

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 of Rs 23.3, to arrive at a target price of Rs 465 per share and maintain our "Buy" rating.**

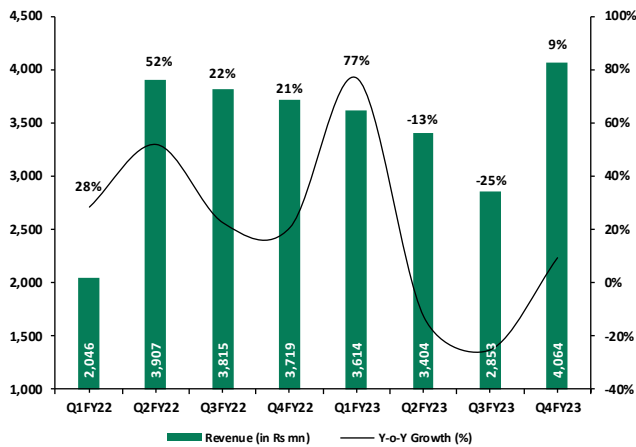
Key risks are (1) Volatile raw material prices (2) Competition from both organised & unorganised players (3) Any increase in GST rates (4) Delay in implementation of project Lakshya.

Fig 1: 1-year forward P/E



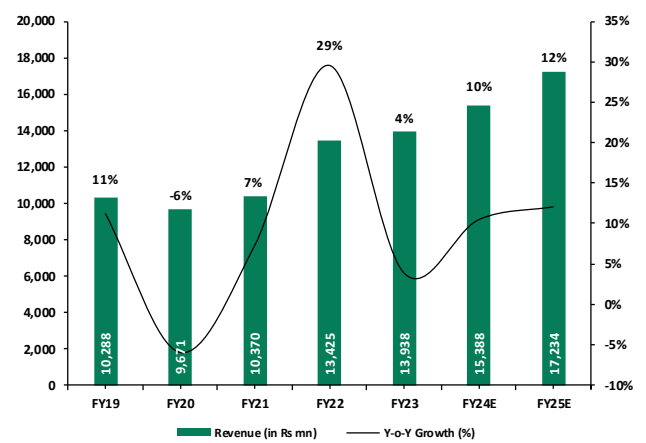
Source: Company, SMIFS Institutional Research Estimates

Fig 2: Revenues (Quarterly)



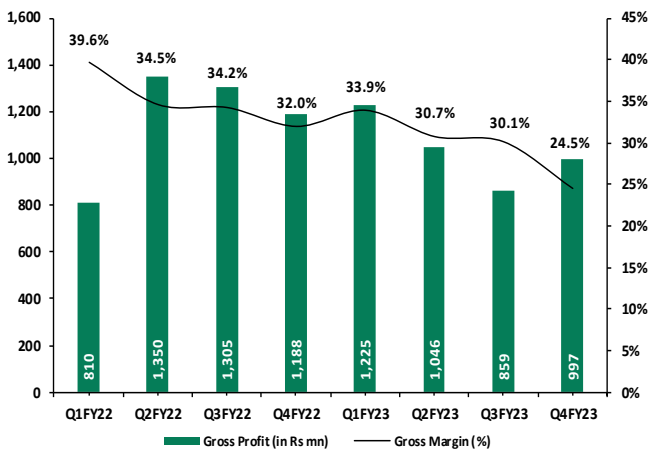
Source: Company, SMIFS Research

Fig 3: Revenues (Yearly)



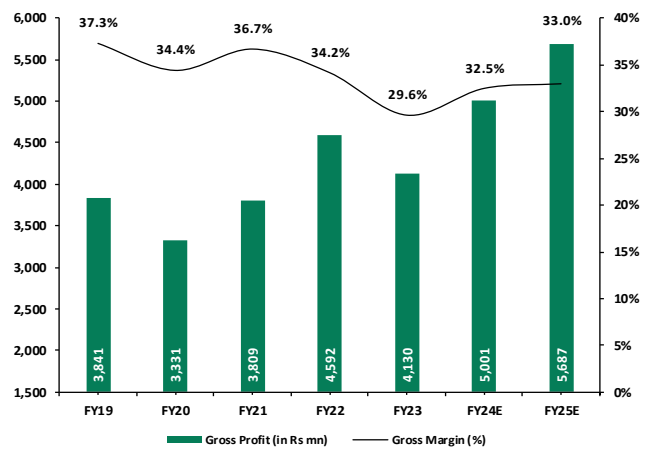
Source: Company, SMIFS Research

Fig 4: Gross Profit (Quarterly)



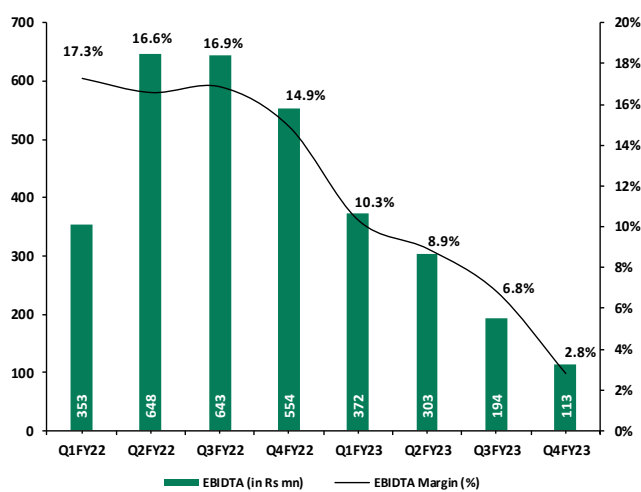
Source: Company, SMIFS Research

Fig 5: Gross Profit (Yearly)



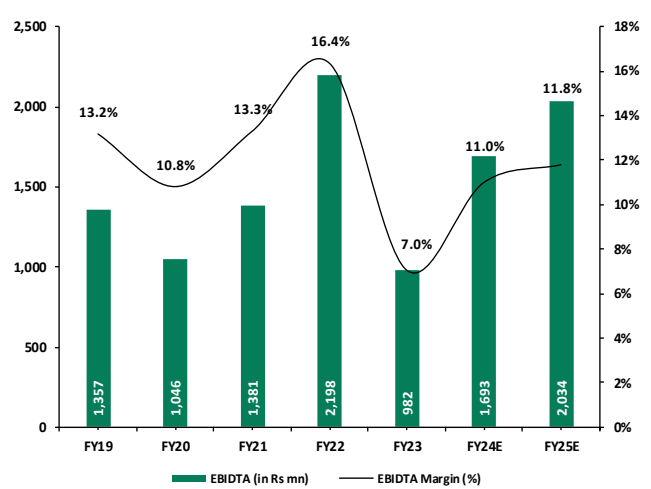
Source: Company, SMIFS Research

Fig 6: EBITDA & Margin (Quarterly)



Source: Company, SMIFS Research

Fig 7: EBITDA & Margin (Yearly)



Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 8: Quarterly Financials (Consolidated)

Y/E March (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Sales	2,046	3,907	3,815	3,719	3,614	3,404	2,853	4,064
COGS	1,235	2,557	2,510	2,531	2,390	2,358	1,994	3,067
Employee Costs	128	155	170	187	185	185	189	210
Other Expenditure	329	548	492	447	667	558	476	674
EBITDA	353	648	643	554	372	303	194	113
Depreciation	38	40	42	45	43	43	48	43
Interest	14	17	20	46	30	39	40	34
Other Income	9	3	15	38	26	4	6	13
PBT	311	594	596	500	325	225	112	49
Tax	79	151	152	129	47	46	25	15
Tax rate (%)	25.6%	25.4%	25.5%	25.8%	14.3%	20.2%	22.0%	30.5%
Reported PAT	231	443	444	371	279	180	87	34
Extraordinary Items	-	-	-	-	-	-	-	-
Share of profit/ (loss) in JV	-6	-6	-1	-7	-9	-7	-10	-28
Adjusted PAT	225	438	444	364	270	173	77	6
YoY Growth (%)								
Revenue	28.3%	51.8%	22.4%	20.6%	76.7%	-12.9%	-25.2%	9.3%
EBITDA	23.3%	84.3%	49.0%	77.9%	5.3%	-53.2%	-69.8%	-79.6%
PAT	39.3%	98.7%	59.7%	88.3%	19.6%	-60.5%	-82.6%	-98.5%
QoQ Growth (%)								
Revenue	-33.6%	91.0%	-2.4%	-2.5%	-2.8%	-5.8%	-16.2%	42.4%
EBITDA	13.5%	83.3%	-0.7%	-13.9%	-32.8%	-18.5%	-36.0%	-41.8%
Adj. PAT	16.5%	94.1%	1.4%	-17.8%	-26.0%	-35.9%	-55.2%	-92.9%
Margin (%)								
Gross margin (%)	39.6%	34.5%	34.2%	32.0%	33.9%	30.7%	30.1%	24.5%
Employee cost/ revenue (%)	6.3%	4.0%	4.4%	5.0%	5.1%	5.4%	6.6%	5.2%
Other expenses/revenue (%)	16.1%	14.0%	12.9%	12.0%	18.5%	16.4%	16.7%	16.6%
EBITDA margin (%)	17.3%	16.6%	16.9%	14.9%	10.3%	8.9%	6.8%	2.8%
PAT margin (%)	11.3%	11.3%	11.6%	10.0%	7.7%	5.3%	3.1%	0.8%

Source: Company, SMIFS Institutional Research Estimates

Fig 9: Change in estimates

Rs mn	New Estimates		Old Estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	15,388	17,234	15,719	17,470	-2%	-1%
Gross profit	5,001	5,687	5,219	5,852	-4%	-3%
Gross margin (%)	32.5%	33.0%	33.2%	33.5%	-70 Bps	-50 Bps
EBITDA	1,693	2,034	1,933	2,219	-12%	-8%
EBITDA margin (%)	11.0%	11.8%	12.3%	12.7%	-130 Bps	-90 Bps
PAT	1,044	1,319	1,232	1,441	-15%	-8%
EPS (Rs)	18	23	22	25		

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,370	13,425	13,938	15,388	17,234
COGS	6,561	8,834	9,809	10,387	11,547
% of sales	63.3%	65.8%	70.4%	67.5%	67.0%
Employee Expenditure	446	640	769	831	896
% of sales	4.3%	4.8%	5.5%	5.4%	5.2%
Other Exp.	1982	1754	2378	2477	2758
% of sales	19.1%	13.1%	17.1%	16.1%	16.0%
EBITDA	1,381	2,198	982	1,693	2,034
Other Income	35	65	47	46	52
Depreciation & Amortisation	155	166	176	211	224
EBIT	1,261	2,097	854	1,528	1,862
Interest Expenses	88	96	142	98	89
Core PBT	1,138	1,936	664	1,383	1,721
PBT	1,173	2,001	711	1,429	1,772
Tax	300	512	132	366	454
Tax Rate (%)	25.6%	25.6%	18.5%	25.6%	25.6%
Extraord. Items	0	0	0	0	0
Reported PAT	873	1490	580	1064	1319
Share of profit/ (loss) in JV	-20	-19	-55	-20	0
Adjusted PAT	853	1471	524	1044	1319

Source: Company, SMIFS Institutional Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23	FY24E	FY25E
Growth ratios (%)					
Net sales	7.2%	29.5%	3.8%	10.4%	12.0%
EBITDA	32.0%	59.2%	-55.3%	72.3%	20.1%
Adjusted PAT	48.8%	72.4%	-64.3%	99.0%	26.4%
Margin Ratio (%)					
Gross Profit	36.7%	34.2%	29.6%	32.5%	33.0%
EBITDA	13.3%	16.4%	7.0%	11.0%	11.8%
EBIT	11.8%	15.1%	5.8%	9.6%	10.5%
Core PBT	11.0%	14.4%	4.8%	9.0%	10.0%
Adj. PAT	8.2%	11.0%	3.8%	6.8%	7.7%
Return Ratio (%)					
ROE	17.3%	24.5%	8.4%	14.2%	15.7%
ROCE	13.6%	19.6%	7.5%	12.5%	14.3%
Turnover Ratio days (days)					
Gross Block Turnover (x)	7.3	8.7	8.1	5.3	5.4
Adj OCF / PAT (%)	145	-6	232	113	91
Inventory	118	110	109	100	95
Debtors	116	100	109	100	95
Creditors	49	43	41	45	45
Cash Conversion Cycle	185	167	177	155	145
Solvency Ratio (%)					
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	1.6	0.7	0.5
Current ratio	2.5	2.2	2.4	2.6	2.8
Interest coverage ratio (x)	14.0	21.1	5.7	15.1	20.2
Dividend					
DPS (Rs)	3.0	3.0	3.0	4.0	5.0
Dividend Payout (%)	20%	12%	32%	22%	22%
Dividend Yield (%)	1.8%	0.7%	0.7%	1.1%	1.4%
Per share (Rs)					
EPS (Reported)	15.0	25.9	9.2	18.4	23.3
Adj. EPS	15.0	25.9	9.2	18.4	23.3
CEPS	17.8	28.9	12.4	22.1	27.2
BV	95.7	118.3	125.0	139.0	156.6
Valuation					
P/E	11.2	15.7	48.9	19.3	15.3
P/BV	1.8	3.4	3.6	2.6	2.3
EV/EBITDA	7.8	11.4	27.7	12.5	10.1
EV/Sales	1.0	1.9	2.0	1.4	1.2
Adj M.Cap /Core PBT	8.4	11.9	38.6	14.5	11.4
Adj M.Cap /Adj OCF	7.7	-249.0	21.0	16.9	16.4

Source: Company, SMIFS Institutional Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of funds					
Capital	113	113	113	113	113
Reserves & Surplus	5233	6628	6974	7768	8769
Shareholders' Funds	5,346	6,741	7,149	7,950	8,956
Total Debt	1240	2057	1616	1116	1016
Other non-current liabilities	72	98	99	99	99
Total Liabilities	6,659	8,896	8,864	9,165	10,071
Application of funds					
Net Block	788	813	832	1770	1847
Capital WIP	135	496	848	71	98
Investments	6	3	1	15	17
Non-current Asset	205	322	564	509	512
Inventories	3339	4752	3576	4216	4486
Sundry Debtors	3309	4021	4283	4216	4486
Other Current Assets	505	646	677	699	765
Cash & Bank Balances	73	5	14	124	579
Total Current Assets	7,227	9,424	8,551	9,255	10,315
Sundry Creditors	1,395	1,761	1,375	1,897	2,125
Other Current Liabilities	307	401	557	558	594
Total Current Liabilities	1,702	2,162	1,932	2,455	2,719
Net Current Assets	5,524	7,262	6,619	6,800	7,596
Total assets	6,659	8,896	8,864	9,165	10,071

Source: Company, SMIFS Institutional Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Operating profit before WC changes	1437	2281	1056	1739	2085
Net change in working capital	186	-1831	586	-92	-348
Income tax paid	-299	-446	-282	-366	-454
Cash flow from operating activities (a)	1324	3	1359	1281	1284
Adjusted OCF	1236	-93	1217	1183	1195
Capital expenditure	-228	-576	-554	-300	-300
Adjusted Free Cash Flow	1096	-571	814	981	984
Cash flow from investing activities (b)	-219	-619	-576	-300	-300
Debt Issuance (repayment)	-864	816	-443	-500	-100
Interest & Lease expenses	-139	-133	-189	-98	-89
Dividend Paid	-91	-136	-170	-272	-340
Cash flow from financing activities (c)	-1094	547	-785	-870	-530
Net change in cash (a+b+c)	11	-68	-2	110	454

Source: Company, SMIFS Institutional Research Estimates

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