INITIATING COVERAGE

PRIVATE CLIENT RESEARCH

NOVERMBER 14, 2017

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DOLLAR INDUSTRIES LTD

PRICE: RS. 424 | **RECOMMENDATION: BUY**

TARGET PRICE: RS. 550 | **FY19E PE: 29.2X**

Dollar Industries Limited (DIL) in last 40 years of its journey, has created substantial presence in India under umbrella brand 'Dollar' with sub brands Big Boss, Missy, Champion, Ultra, etc and umbrella brand 'Force' with sub brands Force NXT and Force Go Wear. The company has largely been present in economy and mid-premium segment with 34% and 44% revenue contribution, respectively and is now focusing on premium and super premium category with its own brand 'Force NXT' and JV with Pepe Jeans for innerwear segment. The company does not have any major capex plan and is focusing on increasing its distribution across region. We believe that DIL, being a leading brand in Indian innerwear market, would be one of the major beneficiaries of GST and has potential to grab market share from unorganized space which is 50% of the total market. We expect DIL's margins to improve by 260bps in FY17-19E on account of focusing on premiumization, price increase, rationalization of adspend, benefits from GST, etc. This will result into higher growth in bottomline than its topline in the next three years. We expect company's sales, EBITDA and PAT to grow at a CAGR of 12.9%, 23.6% and 34.5% respectively, in FY17-19E with strong RoCE of 28.6% by FY19E. We initiate coverage on the stock with buy rating and target price of Rs 550. At our price target the company would be trading at a steep discount to Page Industries.

- **Positive outlook for innerwear industry.** The size of Indian innerwear industry is ~Rs 200 bn and grew at 11% CAGR during FY10-15. As per industry estimates, the industry is expected to reach Rs 595 bn market by 2023, entailing 13% CAGR. Premium and super premium segments is expected to grow at a faster pace. The women's innerwear market, which is driven by value-added innerwear products, contributes around 60% to the market and is growing at a faster rate of 15%.

- **Increasing focus on super premium segment.** After establishing strong position in economy and mid-premium segment with 78% revenue contribution from these, DIL is focusing on premium and super premium category with its own brand Force NXT and JV with Pepe Jeans for innerwear segment. The premium segment contributed ~2% of FY17 sales and is expected to contribute 5.7% by FY19E. The company aims to grow this brand with separate distribution and aggressive advertisement. It is spending 8.6% of revenue on advertisement for building brands and going forward it intends to rationalize the same with more allocation for promoting premium brands. Further, it is also focusing on women innerwear and leggings products with its brand Missy which grew at 50.7% CAGR in FY15-17.

- **Strong distribution network spread across geographies.** DIL is focused on increasing its distribution across region. Presently, it is strong in north, west and east regions which together contribute 92% of its topline. Southern India contributes only 8% to its topline, where it aims to increase presence. In the past three years, it has increased its distribution from 750+ distributors to 850+ distributors and 80000+ MBOs. It is also increasing focus from conventional distribution to large format stores, modern retail and ecommerce, especially for selling premium products.

- **GST positive for the innerwear sector.** Indian innerwear industry is highly unorganized with unorganized players having 50% market share. We believe that the implementation of GST would be a major positive for organized players as they will become more competitive. The gap in manufacturing cost

Stock details

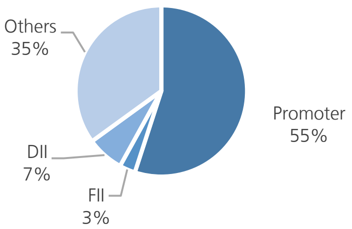
Stock details		
BSE code	:	NA
NSE code	:	DOLLAR
Market cap (Rs bn)	:	23
Free float (%)	:	45.2
52 wk Hi/Lo (Rs)	:	494/263
Avg daily volume (nos)	:	32949
Shares (o/s) (mn)	:	54.2

Summary table

(Rs mn)	FY17	FY18E	FY19E
Revenue	8973	9951	11445
Growth (%)	9.2	10.9	15.0
EBITDA	926	1129	1476
EBITDA margin (%)	10.3	11.3	12.9
PBT	667	862	1208
PAT	435	561	787
EPS	8.0	10.4	14.5
EPS Growth (%)	18	29	40
CEPS (Rs)	11	13	18
Book value (Rs/share)	33	42	55
Dividend per share (Rs)	1.0	1.3	1.8
ROE (%)	26.6	27.3	29.7
ROCE (%)	20.6	23.4	28.6
Net cash (debt)	(2066)	(1875)	(1688)
NW Capital (Days)	122	122	122
P/E (x)	52.9	41.0	29.2
P/BV (x)	12.7	10.0	7.7
EV/EBITDA (x)	27.1	22.0	16.7
EV/Sales (x)	2.8	2.5	2.2

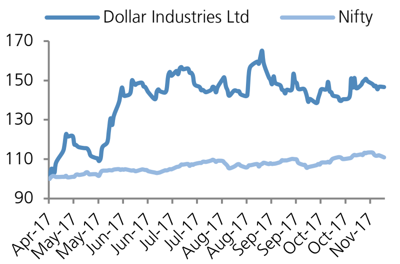
Source: Company, Kotak Securities – Private Client Research

Share holding pattern



Source: Capitaline

One-year performance (Rel to Nifty)



Source: Capitaline

would come down by 5% after GST and would make organized players relatively more competitive. Further, the organized players would also get set-off on service tax paid on advertisement expenses (7-8% of revenue). This will add ~1.2% to the EBITDA margins for the organized players including DIL.

- **Cash flows to improve on no capex and reduction in debtors.** DIL does not have any capex plan at standalone level as it has already incurred it by going backward. We believe that the company would be able to grow its business without any major capex for the next three years in existing line of business. Further, we believe that there is scope for reduction in debtors, as it has established strong brand in mid and economy range, which gives it room to reduce credit to distributors. We have assumed 4-5 days of reduction in debtor's in FY17-19E. This will positively impact its operating cash flows and would help in generating healthy free cash flows in FY17-19E.
- **Revenue growth to pickup with improved margins.** We expect revenue and PAT to grow at a CAGR of 13% and 34% respectively, in FY17-19E. We believe that the revenue growth would be more value driven rather than volume led by product mix. We expect EBITDA margins to improve by 260 bps in FY17-19E led by focusing on premiumization, price increase (presently offering at 3% discount to its peers), rationalization of adspend, lower raw material prices (Higher Cotton output projection can lead to softness in price) and benefits from GST. This will result into higher growth in bottomline than its topline in FY17-19E.

Valuation

We initiate coverage on Dollar Industries Ltd with BUY and price target of Rs.550

Based on FY19E EPS of Rs 14.5, the stock is trading at PE of 29.2x. We believe that, the company is gearing itself up to achieve higher scale by catering to premium segment through Force NXT and increased focus on women segment through Missy. Considering the brand, improving margin profile, high earnings CAGR of >30% and high RoE of closer to ~30% should help the company to trade and sustain at higher valuations. In the last three years, Rupa & Co. has been trading at a discount to Page Industries of ~40% based on Forward PE and EV/EBITDA basis and ~60% based on EV/Sales. If we assign the same discount for DIL, we arrived at a target price of Rs 550, based on average of PE (of 36x), EV/EBITDA (of 22x) and EV/Sales (of 2.8x). We initiate coverage on the stock with BUY rating and target price of Rs 550. At our price target the company would be trading at a steep discount to Page Industries.

Key risk & concerns

- Volatility in the raw material prices
- Huge investment in JV
- Competition from peers

Company Background

Dollar Industries Limited was promoted by Dindayal Gupta under the name Bhawani Textiles and now has created substantial presence in India under the Dollar umbrella. The company is present across segment in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, etc. Its brands are also marketed in over 10 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal and Sudan. The company manufactures more than 350 products across all innerwear segments. The company's manufacturing facilities are located at Kolkata, Tirupur, Delhi and Ludhiana. It has fully integrated facility at Tirupur with presence in spinning (400 tonnes per annum), knitting (300 tonnes per annum), dyeing and bleaching (400 tonnes per annum), cutting (0.3 mn pcs per day), elastic manufacturing, stitching and packaging and caters to high end products. Approx 30% of its requirement is met in-house and balance is through job work which helps it to be asset light. The company is managed by Mr. Vinod Kumar Gupta, Mr. Binay Kumar Gupta, Mr. Krishan Kumar Gupta and Mr. Bajrang Kumar Gupta along with a team of professionals. It has diversified product mix from innerwear to knitted outerwear and is catering to men's women's and kids. The company is increasing focus on premium segment

Key brands and target segment

Brands	Type	Products offerings	Target segment
Bigboss PREMIUM INNERWEAR	Affordable fashion	Vests, briefs and trunks	Male market with a monthly income of more than Rs 10,000
Missy	Fashionable intimate-wear	Camisoles, panties, leggings and comfort wear.	All women
ULTRA THERMALS	Ultra-light	Ladies blouses, thermal camisoles, thermal vests for men	Across all men and women
CHAMPION KIDS	Value-for-money	T-shirts, Bermudas, trousers	Semi-urban and rural India
FORCE NXT	International standard	Vests, briefs, trunks and t-shirts	18 to 40-year-old males

Source: Company

Board of directors

Name	Designation
Dindayal Gupta	Chairman
Vinod Kumar Gupta	Managing Director & CEO
Binay Kumar Gupta	Managing Director
Krishan Kumar Gupta	Whole-time Director
Bajrang Kumar Gupta	Whole-time Director
Gopalakrishnan Sarankapani	Whole-time Director
Binay Kumar Agarwal	Independent Director
Pawan Kumar Agarwal	Independent Director
Rajesh Kumar Bubna	Independent Director
Deepshikha Rakesh Agarwal	Independent Director
Rakesh Biyani	Independent Director
Sunil Mitra	Independent Director

Source: Company

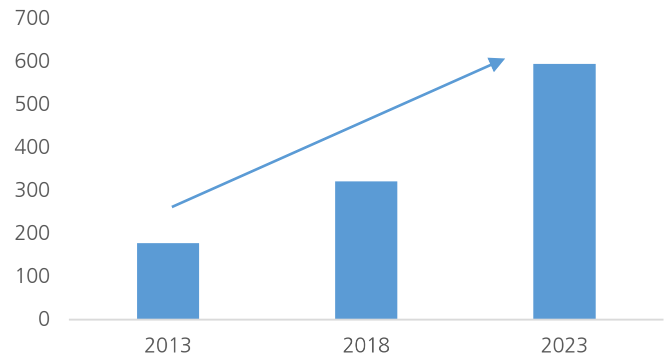
INVESTMENT RATIONALE

Positive outlook for innerwear industry

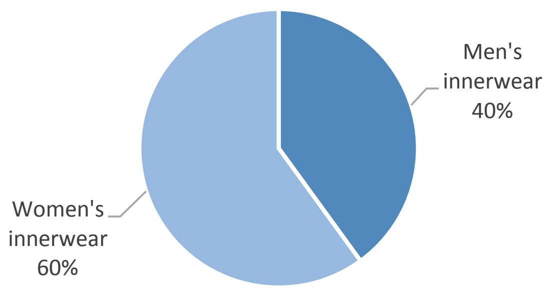
The size of Indian innerwear industry is ~Rs 200 bn and grew at 11% CAGR during FY10-15. As per industry estimates, the industry is expected to reach Rs 595 bn market by 2023, entailing 13% CAGR. The men's innerwear market, contributes 40% and is characterized by the presence of numerous Indian and international brands. The economy segment contributes around 56% to the menswear market, while the mid-price segment makes up 30%, the remaining 14% comes from premium and super premium segments. Premium and super premium segments is expected to grow at faster pace.

The women's innerwear market, which is driven by value-added innerwear products, contributes around 60% to the market and is growing at a faster rate of 15%. The market is largely dominated by mid-priced and economy segment contributing 80% of the market, while remaining comes from premium and super premium segments. The company believes that the industry is 50% unorganized and expect shift to happen from unorganized to organize in the longer run. Increasing urbanization, preference towards branded products, introduction of GST, organized and online retailing, etc. are various factors which would drive growth for organized players.

Indian innerwear industry to grow at 13% CAGR (Rs bn)

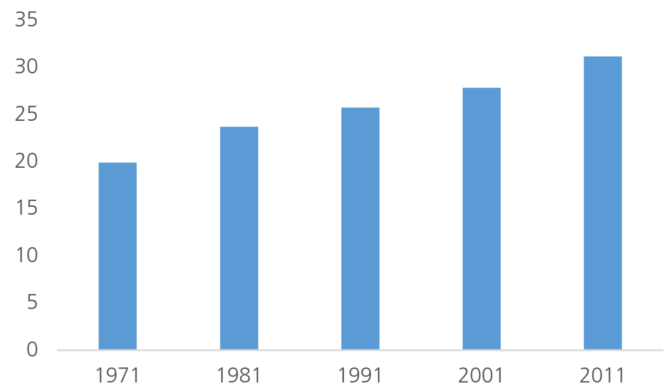


Market Breakup

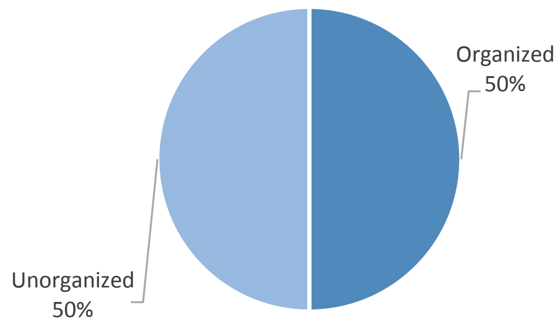


Source: Industry

Rise in urban population



Organized and Unorganized breakup



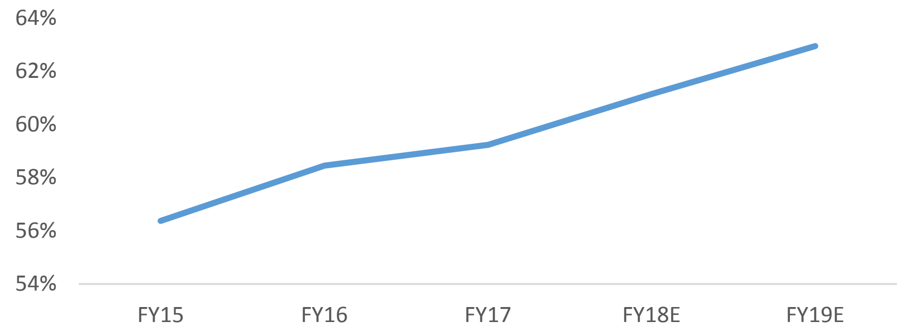
Source: Industry, Census

Increasing focus on super premium segment

DIL has largely been present in economy and mid-premium segment through its Dollar Regular (Realization Rs 35/piece) and Big Boss (Realization Rs 62 per piece) brands with 34% and 44% revenue contribution, respectively. The company is now focusing on premium category with its brand Force NXT (Realization Rs 114/piece) launched in August 2015 and contributed ~2% of FY17 sales. It aims to grow this brand focused on aspirational segment to over Rs 1 bn in next 3 years and would go for aggressive advertisement to position it. Further, Missy is expected to do well with women innerwear and leggings products.

As per the company, there is opportunity to grow by focusing on segments between mid-range product and Super premium products offered by Jockey. Most of the organized players are focusing on filling this gap by launching their products in this segment. Lux is focusing on this through ONN brand, Rupa through 'Macroman M-series' & 'Macrowoman W-Series'. Similarly, DIL is focusing on this space with its brand Force NXT which will help in tapping aspirational segment. The company intends to achieve the same by focusing on quality, comfort, design, packaging, etc.

Growing share of mid-premium and premium segment

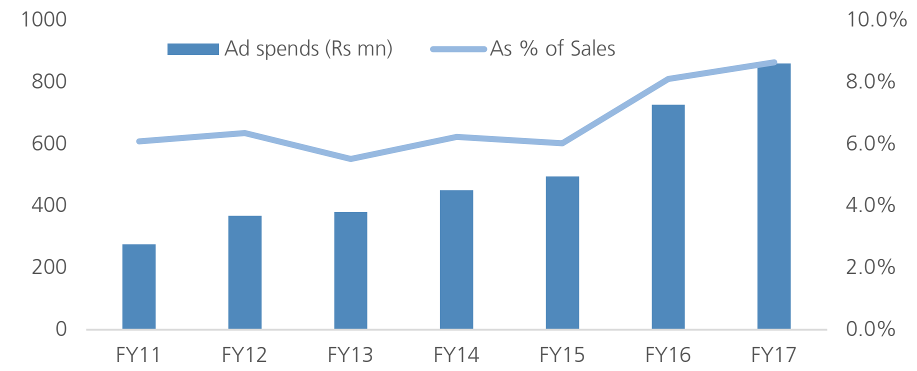


Source: Company, Capitaline, Kotak Securities - Private Client Research

Strong brand positioning with 8-10% of revenues as adspend

DIL is focused on building brands and has spent 8.6% of its revenue on advertisement in FY17. It has been largely spending on building Big Boss brand with Akshay Kumar as brand ambassador for past six years. Big Boss brand has scaled up and attained decent level in the past six years. The association with Akshay Kumar is still continuing to maintain brand velocity. Going forward, the allocating of adspend would be more towards building premium brand including Force NXT. As part of its advertisement strategy, the company may not include any brand ambassador for promoting the Force NXT brand. We believe that rationalization of adspend towards premium brands would help in growth of Force NXT brand.

Adspend as % of revenue



Source: Company

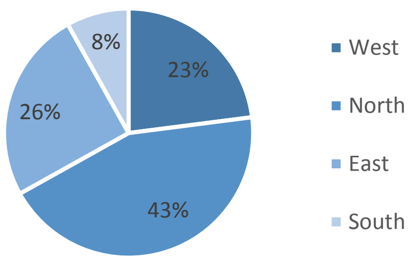
Tapping super premium market through JV with Pepe Jeans

DIL as part of its strategy aims to increase its presence in super premium segment through JV or tieup. It has recently tied-up with foreign brand Pepe Jeans for selling innerwear products in India through JV company. This will help the company to grab opportunity in the super premium segment. We believe that there is huge opportunity in first layer of market with one third of Rs 80 bn organized market being targeted by few players in the segment like Jockey, Levis, FCUK, etc., with Jockey much bigger than others in the segment. The JV will help to grab opportunity in the space. Pepe has experience in marketing and has a strong brand equity. The JV will require investment of Rs 2 bn in four years with Rs 720 mn of total equity investment and balance through debt. DIL would be investing Rs 360 mn as equity in the JV company. As per management commentary in the Q1FY18 concall, the JV is eyeing ~Rs 600 mn of revenue in the first year of operation (FY19) and is expected to be profitable at EBITDA level. The company expects EBITDA margins of 15% in 5-6 years of operations.

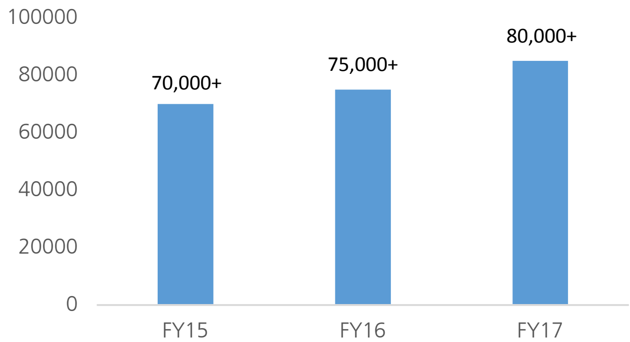
Strong distribution network spread across geographies

DIL is focused on increasing its distribution across region. Presently, it is strong in north, west and east regions which together contribute 92% of its topline. Southern India contributes only 8% to its topline, where it aims to increase presence. In the past three years, it has increased its distribution from 750+ distributors to 850+ distributors and 80000+ MBOs. It is increasing focus from conventional distribution to large format stores, modern retail and ecommerce, especially for selling premium products. It distributes Force NXT through modern retail, through Shop in Shop, EBOs, MBOs, etc.

Dollar: Geographical breakup

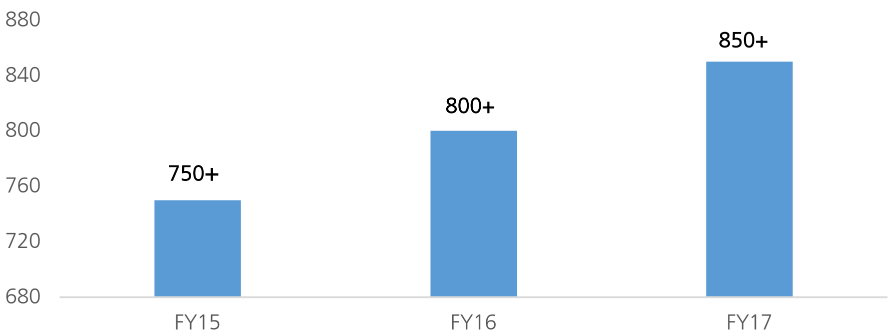


Dollar: Increase in MBOs



Source: Company

Dollar: Distributors count

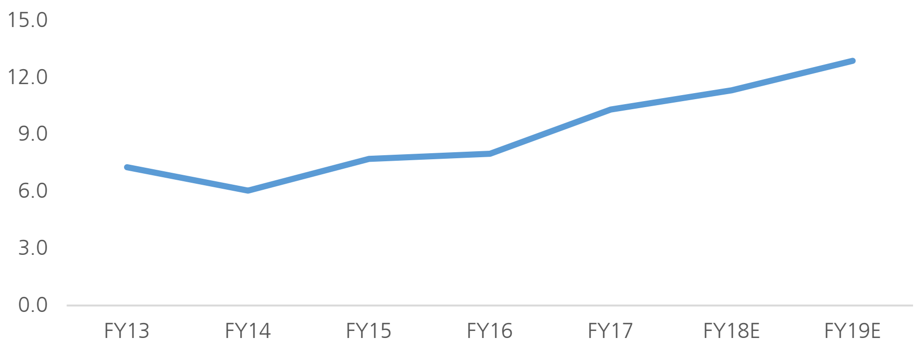


Source: Company

Implementation of GST is positive for organized players

Indian Innerwear industry is 50% unorganized and we expect shift to happen from unorganized to organized in the longer run led by implementation of GST. Pre-GST, there was ~10% gap in terms of manufacturing cost between organized and unorganized in the economy segment which management expects should come down to 5% post GST. Further, the organized players would also get setoff on service tax paid on advertisement expenses (8-10% of revenue), which will give them more room to compete against unorganized players and positively impact EBITDA margins. DIL spends 8.6% of its revenue on advertisement on which it was earlier paying service tax @15%. The company would now get input credit on the same, which will add ~1.2% to its operating margins.

EBITDA margins to improve

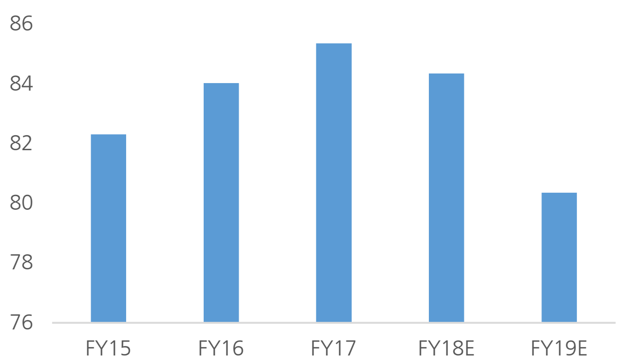


Source: Company, Kotak Securities - Private Client Research

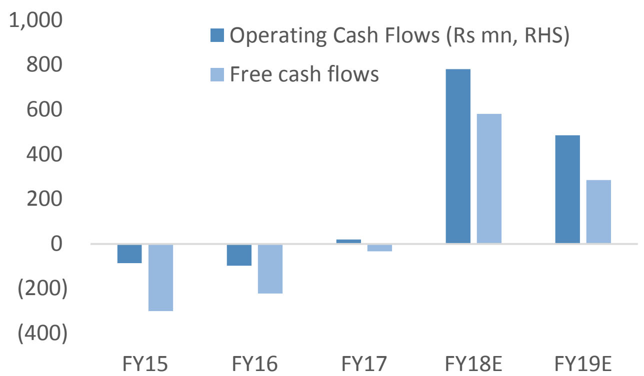
Free Cash flows to improve on no capex and reduction in debtors

DIL does not have any capex plan at standalone level as it has already done capex by going backward. It has 400 tonnes per month spinning capacity, 300 tonnes per month knitting capacity, 400 tonnes per month dyeing and bleaching capacity, 1 mn meters per month elastic capacity and 3 lakh pieces per day cutting capacity. The company carries stitching through job work. The backward integration would help it in offering quality product for Force NXT brand. We believe that the company would be able to grow its business without any major capex for the next three years in existing line of business. Further, we believe there is scope for reduction in working capital. The company has been giving higher credit to its distributors in the past three years in order to grab market share and push new brands. As a result, its debtor's days increased from 67 days in FY14 to 85 days in FY17. The company believes there is scope to reduce debtors by 10-15 days as its has established strong brand in mid and economy range, which gives it room to reduce credit to distributors. We have assumed 4-5 days of reduction in debtor's in FY17-19E. This will positively impact its operating cash flows and would help in generating healthy free cash flows in FY17-19E.

Debtor's days



Operating and Free cash flows



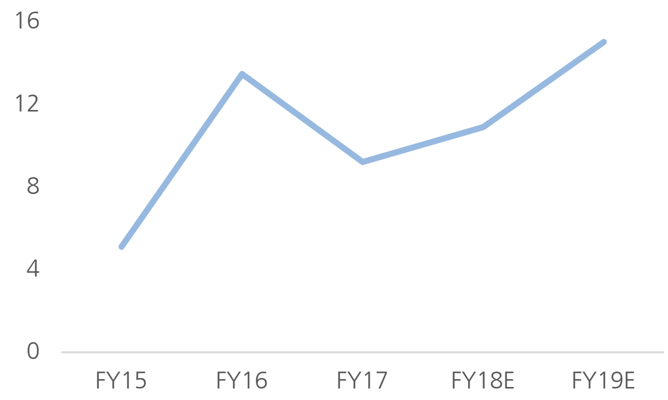
Source: Company, Kotak Securities - Private Client Research

Revenue growth to pickup with improved margins

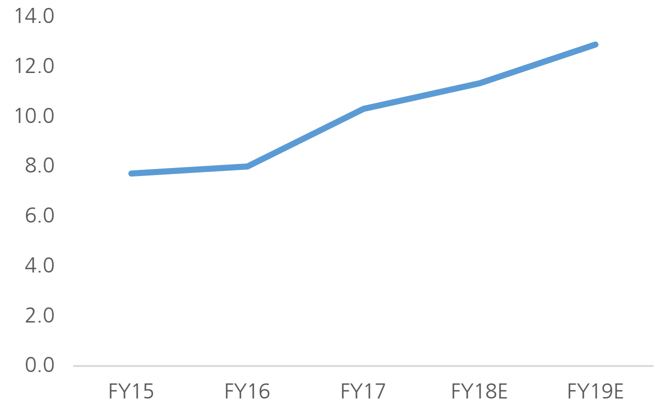
In last 40 years of its journey, Dollar Industries has been able to achieve Rs 9 bn of revenue. The company has vision to achieve ~Rs 20 bn revenue in the next 7 years on a conservative basis. This would be driven by 1) Unorganized to organized shift, 2) increased volume growth in economy segment, 3) penetration in super premium segment (Force NXT) 4) increased contribution from Women's wear segment (Missy), 5) organic growth of existing brands (Big Boss and Dollar Regular), 6) penetration in new geography and 7) tie-up/JV with foreign brand (lik Pepe Jeans). Based on this, we expect revenue and PAT to grow at a CAGR of 13% and 34%, respectively in FY17-19E. We believe that the revenue growth would be more value driven rather than volume led by product mix.

We expect EBITDA margins to improve by 260 bps in FY17-19E led by focusing on premiumization, price increase (presently offering at 3% discount to its peers), rationalization of adspend, lower raw material prices (Higher Cotton output projection can lead to softness in price) and benefits from GST. This will result into higher growth in bottomline than its topline in FY17-19E.

Pickup in Revenue growth%



Improvement in EBITDA margins



Source: Company, Kotak Securities - Private Client Research

KEY RISK & CONCERNS

- **Volatility in the raw material prices** – Innerwear products are made of cotton fabrics. Any major volatility in cotton prices may impact the raw material cost for the company and would impact earnings estimates.
- **Huge investment in JV** – DIL plans to grow in super premium segment through JV. Any major equity investment in JV through borrowing or equity fund raising route may negatively impact near term earnings.
- **Competition from peers** – DIL's economy and mid segment products are mostly sold through wholesale model and is competing against its peers in the segment. Any aggressive approach by its peers in terms of discounts or promotional schemes to dealers may affect earnings of the company.

FINANCIALS OUTLOOK & VALUATIONS

DIL has witnessed revenue and PAT CAGR of 15% and 38%, respectively in FY12-17 with improvement in margins due to better product mix and process efficiencies. The gross margins of the company improved by over 1000 bps on improved product mix, increase in prices by reducing undercutting and benefit from backward integration. The company has adopted strategy to grow its business by focusing on growing premium segment. As a result, the EBITDA margins have improved from 5.5% in FY11 to 10.3% in FY17. The company is operating at decent RoCE and RoE of 20.9% and 26.6% respectively. Based on our earnings CAGR of 38%, RoE should reach 29.7% by FY19E.

The company is targeting to double its revenue in next 7 years with improved margins. We expect company's sales, EBITDA and PAT to grow at a CAGR of 12.9%, 26.3% and 34.5%, respectively in FY17-19E. We expect the margins of the company to improve by 260 bps from 10.3% in FY17 to 12.9% in FY19E after factoring in reduction in discounts, increased contribution from premium segment and benefits accruing from GST.

Further, the company has informed the exchanges about the promoters infusing Rs 1.07 bn in the company by allotting 2.5 mn shares at price of Rs 430/share through preferential allotment. The proceeds of the same would be used for meeting equity requirement (Rs 360 mn) in JV with Pepe Jean while balance could be used for repayment of debt. The equity dilution of 4.6% would be EPS accretive as reduction in interest expenses (post tax) could be higher than the equity dilution.

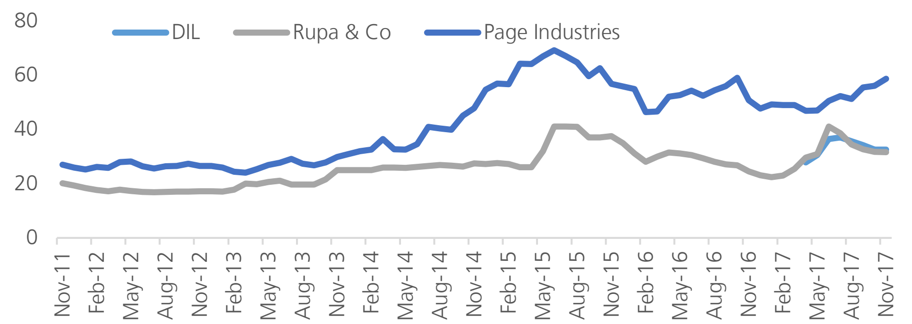
Based on FY19E EPS of Rs.14.5, the stock is trading at PE of 29.2x. We believe that, the company is gearing itself to achieve higher scale by catering to premium segment through Force NXT and increased focus on women segment through Missy. Considering the brand, scale up, improving margin profile, high earnings CAGR of >30% and high RoE of closer to ~30% should help the company to trade and sustain at higher valuations. Today, Page Industries trades at Forward PE of 56x FY19E, EV/EBITDA of 38x and EV/Sales of 7.5x (on FY19E). In the last three years, Rupa & Co. has been trading at a discount to Page Industries of ~40% based on Forward PE and EV/EBITDA basis and ~60% based on EV/Sales. If we assign the same discount for DIL, we get a target price of Rs 550, based on average of PE (of 36x), EV/EBITDA (of 22x) and EV/Sales (of 2.8x). We initiate coverage on the stock with buy rating and target price of Rs 550. At our price target the company would be trading at a steep discount to Page Industries.

Valuation

Valuation	Average Discount (%)	Multiple (x)	Target price Per share (Rs)
1) PE	40%	36	516
2) EV/EBITDA	40%	22	573
3) EV/Sales	60%	2.8	560
Average Per share price (of 1-3)			550

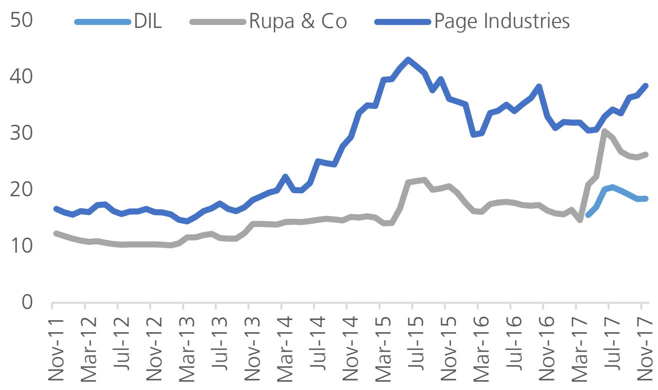
Source: Company, Capitaline, Bloomberg, Kotak Securities - Private Client Research

Comparative Forward P/E (x)

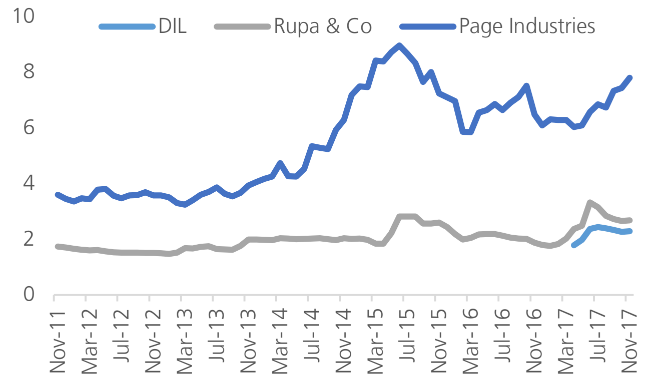


Source: Company, Capitaline, Bloomberg, Kotak Securities - Private Client Research

Comparative Forward EV/EBITDA (x)



Comparative Forward EV/Sales (x)



Source: Company, Capitaline, Bloomberg, Kotak Securities - Private Client Research

Peer Comparison

Particulars (Rs Mn) (FY17)	Rupa & Co	Dollar Industries	Lux Industries	Page Ind
Net Sales	10928	8973	9720	21301
CAGR% (last 5Yrs)	9.0%	14.6%	12.2%	25.1%
EBITDA	1389	926	1200	4132
CAGR% (last 5Yrs)	9.0%	22.3%	29.7%	22.5%
PAT	722	435	628	2663
CAGR% (last 5Yrs)	10.7%	37.7%	34.8%	24.2%
EBITDA Margins%	12.7%	10.3%	12.3%	19.4%
PAT Margins%	6.6%	4.8%	6.5%	12.5%
RoCE	23.0%	20.9%	23.3%	57.3%
RoE	17.9%	26.6%	29.9%	45.5%
ATO (x)	2.0	2.3	1.8	2.9
GBTO (x)	4.4	6	9.8	5.9
Working Capital Cycle (Days)	121	122	148	73
Debtors (Days)	69	85	103	18
Inventory (Days)	98	84	87	100
Creditors (Days)	56	56	59	49
P/E (x)	48.0	52.9	55.7	93.6
P/BV (x)	7.9	12.7	11.6	37.4
EV/Sales (x)	3.2	2.8	3.8	11.7

Source: Company, Capitaline, Kotak Securities - Private Client Research

FINANCIAL PROJECTIONS

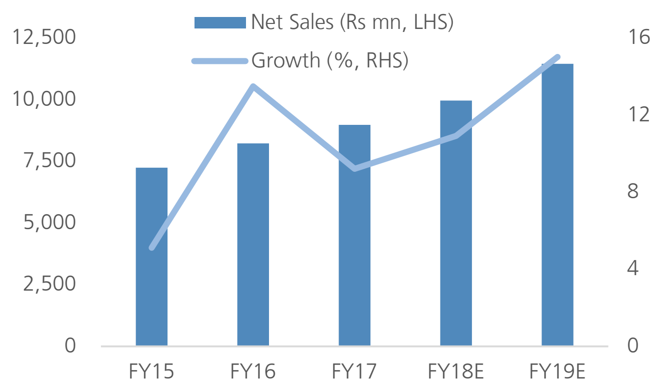
Expect 12.9% Sales CAGR in FY17-19E

We expect revenue of DIL to grow at a CAGR of 12.9% in FY17-19E led by 7.7% CAGR in volume and 5.5% CAGR in realization. We expect volume CAGR of 125% in Force NXT and 12.3% in Big Boss in FY17-19E. We expect contribution from premium brand Force NXT to increase from 1.5% in FY17 to 5.7% in FY19E. After a single digit growth in FY17 which also got impacted by demonetization, we expect FY18E revenue to grow at low double digit of 11% partially impacted by GST and 15% revenue growth in FY19E.

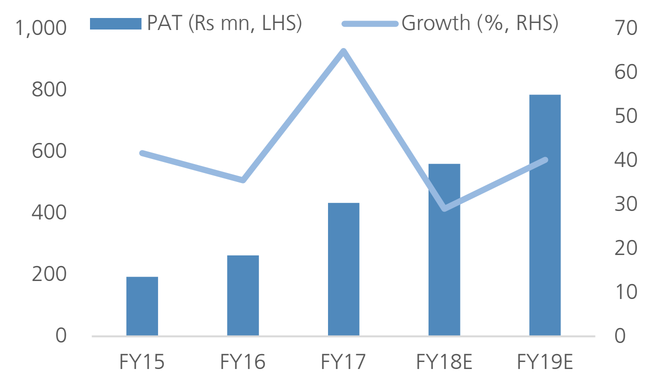
Expect 34.5% PAT CAGR in FY17-19E with returns ratios expected remain strong

We expect PAT to grow at a CAGR of 34.5% in FY17-19E driven by 1) 260 bps improvement in EBITDA margins in FY17-19E on better product mix and GST benefits and 2) 5% average decline in interest expenses on lower debt and strong cash flows. We expect working capital to remain flattish. But based on strong cash flows from operations, the net debt to equity is expected to reduce from 1.1x in FY17 to 0.6x by FY19E. We expect ROCE of the company to improve to 28.6% by FY19E from 20.6% in FY17 on strong margins and increase in asset turnover ratios.

Net Sales and Net sales growth trend

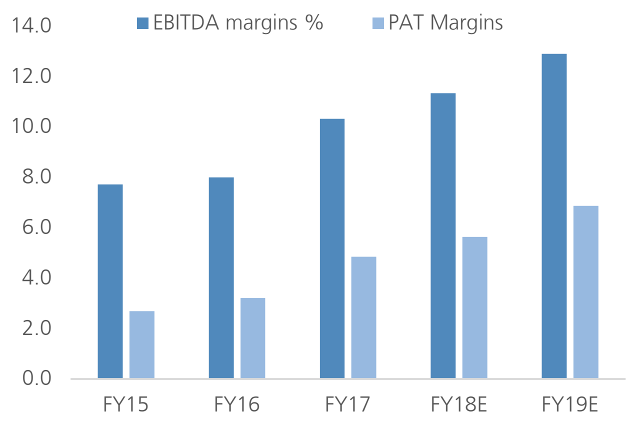


PAT and PAT Growth trend

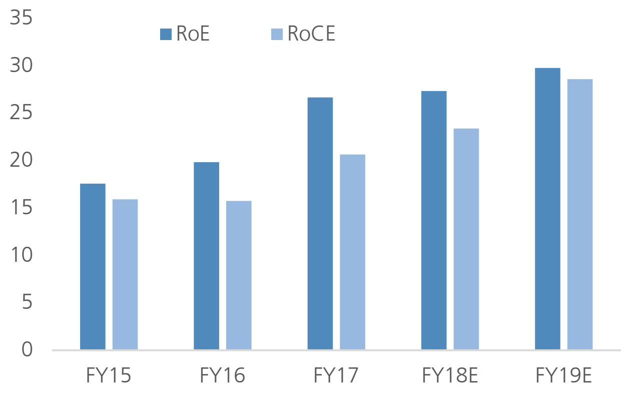


Source: Company, Kotak Securities - Private Client Research

EBITDA and PAT margin trend



RoCE & RoE



Source: Company, Kotak Securities - Private Client Research

Quarterly Highlights

Year to March (INR Mn.)	Q1FY18	Q1FY17	%Change	Q4FY17	%Change
Net Revenues	**2,394**	**2,367**	**1.2**	**2,775**	**(13.7)**
Raw Materials Cost	1,106	1,459	(24.2)	948	16.7
Gross Profit	1,288	908	41.9	1,827	(29.5)
Employee Expenses	53	41	29.2	65	(19.6)
Other Expenses	978	689	41.9	1,386	(29.5)
Operating Expenses	2,137	2,189	(2.4)	2,400	(11.0)
EBITDA	**258**	**178**	**45.0**	**375**	**(31.2)**
EBITDA margin	10.8%	7.5%		13.5%	
Depreciation	29	35	(16.0)	53	(44.2)
Other income	1	1	55.2	44	(97.2)
Net finance expense	46	39	17.2	57	(19.5)
Profit before tax	**184**	**104**	**76.0**	**309**	**(40.5)**
Provision for taxes	59	22	-	125	(53.1)
Reported net profit	**125**	**82**	**52.1**	**184**	**(31.8)**
As % of net revenues					
COGS	46.2	61.7		34.2	
Employee cost	2.2	1.7		2.4	
Other Expenses	40.8	29.1		50.0	
Operating expenses	89.2	92.5		86.5	
EBITDA	10.8	7.5		13.5	
Reported net profit	5.2	3.5		6.6	
Tax rate (% of PBT)	31.9	21.2		40.5	

Source: Company

FINANCIALS

Profit and Loss Statement

(Rs mn)	FY16	FY17	FY18E	FY19E
Revenues	**8217**	**8973**	**9951**	**11445**
% change yoy	13.5	9.2	10.9	15.0
EBITDA	**657**	**926**	**1129**	**1476**
% change yoy	17.5	40.8	21.9	30.8
Depreciation	137	148	161	181
EBIT	**520**	**778**	**968**	**1296**
Other Income	83	86	86	86
Interest	194	197	192	174
Profit Before Tax	409	667	862	1208
% change yoy	32.9	63.2	29.1	40.2
Tax	145	233	300	421
as % of EBT	35.6	34.9	34.9	34.9
PAT	**263**	**435**	**561**	**787**
% change yoy	35.5	64.9	29.1	40.2
Shares outstanding (mn)	39	54	54	54
EPS (Rs)	6.8	8.0	10.4	14.5
DPS (Rs)	0	1.0	1.3	1.8
CEPS(Rs)	10.3	10.7	13.3	17.8
BVPS(Rs)	26.8	33.4	42.4	55.1

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY16	FY17	FY18E	FY19E
Pre-Tax Profit	409	667	862	1208
Depreciation	137	148	161	181
Change in WC	(491)	(617)	59	(483)
Other operating activities	(153)	(178)	(300)	(421)
Operating Cash Flow	**-98**	**20**	**781**	**485**
Capex	(124)	(53)	(200)	(200)
Free Cash Flow	(222)	(33)	581	285
Change in Investments	0	-3	-320	0
Investment cash flow	**(124)**	**(56)**	**(520)**	**(200)**
Equity Raised	0	31	0	0
Debt Raised	248	110	-200	-200
Dividend & others	(12)	(111)	(70)	(98)
CF from Financing	**235**	**29**	**(270)**	**(298)**
Change in Cash	14	-7	-9	-13
Opening Cash	91	104	97	88
Closing Cash	104	97	88	75

Source: Company, Kotak Securities - Private Client Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E
Paid - Up Equity Capital	78	108	108	108
Reserves	1377	1701	2192	2881
Net worth	1455	1809	2300	2989
Borrowings	2053	2163	1963	1763
Net Deferred tax	41	24	24	24
Total Liabilities	**3549**	**3996**	**4287**	**4776**
Gross block	1455	1514	1714	1914
Depreciation	618	766	927	1107
Net block	837	748	788	807
Capital work in progress	6	0	0	0
Total fixed assets	844	749	788	807
Investments	0	3	323	323
Inventories	2084	2049	2291	2636
Sundry debtors	1932	2265	2300	2520
Cash and equivalents	104	97	88	75
Loans and advances & Others	149	134	154	177
Total current assets	4268	4545	4834	5407
Sundry creditors and others	1499	1076	1418	1505
Provisions	64	154	169	186
Total CL & provisions	1563	1230	1587	1691
Net current assets	2704	3315	3247	3716
Other net assets	1	-71	-71	-71
Total Assets	**3549**	**3996**	**4287**	**4776**

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Rs mn)	FY16	FY17	FY18E	FY19E
Profitability Ratios				
EBITDA margin (%)	8.0	10.3	11.3	12.9
EBIT margin (%)	6.3	8.7	9.7	11.3
Net profit margin (%)	3.2	4.8	5.6	6.9
Adjusted EPS growth (%)	35.5	17.9	29.1	40.2
Balance Sheet Ratios:				
Receivables (days)	84	85	84	80
Inventory (days)	73	84	84	84
Loans & Advances	7	5	6	6
Payable (days)	58	52	52	48
Cash Conversion Cycle	106	122	122	122
Asset Turnover	2.3	2.2	2.3	2.4
Net Debt/ Equity	1.3	1.1	0.8	0.6
Return Ratios:				
RoCE (%)	15.8	20.6	23.4	28.6
RoE (%)	19.8	26.6	27.3	29.7
Valuation Ratios:				
P/E (x)	62.3	52.9	41.0	29.2
P/BV (x)	15.8	12.7	10.0	7.7
EV/EBITDA (x)	28.0	27.1	22.0	16.7
EV/Sales (x)	2.2	2.8	2.5	2.2

Source: Company, Kotak Securities - Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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