

## Result Update

### Stock Details

Market cap (Rs mn)	:	17800
52-wk Hi/Lo (Rs)	:	515 / 265
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	47,060
Shares o/s (mn)	:	57

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	9825	10709	11988
Growth (%)	9.5	9.0	11.9
EBITDA	1239	1374	1596
EBITDA margin (%)	12.6	12.8	13.3
PAT	640	735	886
EPS	11.3	13.0	15.6
EPS Growth (%)	41	15	21
Book value (Rs/share)	62.2	73	87
Dividend per share (Rs)	1.6	1.8	2.2
ROE (%)	24.0	19.1	19.5
ROCE (%)	24.2	22.8	24.3
P/E (x)	27.7	24.2	20.0
EV/EBITDA (x)	15.5	13.9	11.8
P/BV (x)	5.0	4.3	3.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	56.8	56.8	54.9
FII	0.6	2.0	2.8
DII	8.4	7.7	7.2
Others	34.2	33.5	35.2

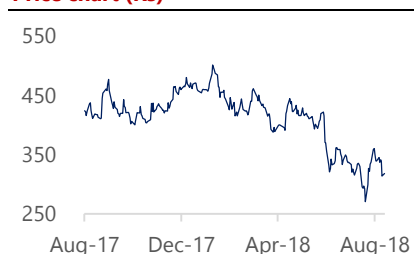
Source: Company

### Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(4.9)	(23.7)	(27.0)
Nifty	3.1	5.1	7.7

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## DOLLAR INDUSTRIES LTD (DIL)

PRICE RS.313

TARGET RS.427

BUY

DIL Q1FY19 results were below our estimates due to below expected revenue in domestic markets and decline in exports.

### Key Highlights

- DIL reported below expected revenue growth of 3.6% yoy due to decline in exports, lower revenue growth across brands due to weakness in overall volume offtake. and company adopting corrective measures for distribution of various brands.
- EBITDA margin improved by 60 bps to 11.6% was inline with our estimates led by better product mix. PAT for the quarter grew by 10.3% yoy to Rs 138 mn Vs estimates of Rs 153 mn.
- DIL management has maintained guidance for 12% growth in revenue in FY19E with improvement in EBITDA margins at ~13%.

### Valuation & outlook

- The company is positive on its business in the longer run and is focusing on strengthening of its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 7% and 10.2% respectively factoring in lower growth in volume and EBITDA margins as the transformation in business may take longer time.
- The stock is trading at PE of 24.2x and 20x on FY19E and FY20E revised EPS of Rs 13 and 15.6, respectively. We maintain our Buy rating on the stock with revised target price of Rs 437 (Vs Rs 505 earlier).

### Quarterly performance table (standalone)

Year to March (INR Mn.)	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg
<b>Net Revenues</b>	<b>2,437</b>	<b>2,351</b>	<b>3.6</b>	<b>2,722</b>	<b>(10.5)</b>
Raw Materials Cost	1,005	1,106	(9.2)	1,157	(13.2)
Gross Profit	1,432	1,245	15.0	1,565	(8.5)
Employee Expenses	75	53	42.2	79	(5.9)
Other Expenses	1,075	934	15.0	1,163	(7.6)
Operating Expenses	2,154	2,093	2.9	2,400	(10.3)
<b>EBITDA</b>	<b>283</b>	<b>258</b>	<b>9.6</b>	<b>322</b>	<b>(12.3)</b>
EBITDA margin	11.6%	11.0%		11.8%	
Depreciation	26	29	(11.7)	31	(15.7)
Other income	2	1	30.6	8	(78.9)
Net finance expense	34	46	(25.0)	35	(2.4)
Profit before tax	224	184	21.7	264	(15.2)
Provision for taxes	86	59	46.0	77	10.8
<b>Reported net profit</b>	<b>138</b>	<b>125</b>	<b>10.3</b>	<b>186</b>	<b>(25.9)</b>
As % of net revenues					
COGS	41.2	47.0		42.5	
Employee cost	3.1	2.2		2.9	
Other Expenses	44.1	39.7		42.7	
Operating expenses	88.4	89.0		88.2	
Reported net profit	5.7	5.3		6.8	
Tax rate (% of PBT)	38.3	31.9		29.3	

Source: Company

### **Revenue grew at 3.6% on weakness in demand and corrective measures**

Net revenue in Q1FY19 grew at sluggish pace of 3.6% at Rs 2.4 bn (as against our estimates of Rs 2.63 bn). The company missed our estimates due to 3% yoy decline in volume across brands due to weak demand and sluggish exports (declined by 5% yoy). The company adopting corrective measures for distribution for various brands has also impacted growth in the major brands. As per the management, exports declined due to quarterly variations and would revive in coming quarters. Average realization for the quarter improved by 6% due to better product mix. In Q1FY19, 46% revenue contributed by Big Boss, 37% by regular, 3% by Force NXT, 7% by Missy, 6% by Force Gowear and 1% by Champion. The company is focusing on strengthening its retail presence by increasing presence in modern retail, online, rolling out EBOs on franchisee basis, etc. The company is also focusing on expanding product range in Missy and Bigboss.

### **EBITDA margins improved by 60 bps yoy**

EBITDA for the quarter grew by 9.6% yoy to Rs283mn and was below our estimates, with inline EBITDA margin at 11.6%. The company has guided to achieve EBITDA margins of 13% in FY19E and aims to achieve 15% EBITDA margins in the longer run. This will be achieved by its focus towards premiumization, improvement in product mix, improved distribution model, etc. PAT for the quarter grew by 10.3% yoy at Rs 138 mn Vs estimates of Rs 153 mn.

### **Working capital remained high**

Working capital remained at elevated level due to GST, creating working capital pressure in the channel. In addition, the company also supported channel partners due to liquidity issue during GST implementation. The company expects revival in working capital scenario once the impact of GST subsidies in the system.

### **Guided for 12% revenue growth with improved margins**

DIL has guided for 12% growth in revenue in FY19E with improvement in EBITDA margins estimated at 13%. The company expects that the benefits from strengthening of its system through appointment of consultant would take 4-6 quarters in terms yielding complete results. Hence its expectation of additional 8% growth in revenue in FY19E due to restructuring of its internal systems may not materialize.

### **Other highlights**

- JV with Pepe jeans for innerwear products is operating as per expectations. The team is on board and manufacturing of the products started. The products are expected to reach market by Q2FY19.
- The company is positive on its premium end brand Force NXT and Missy. It expects the segment to grow at faster pace in coming years.
- The company does not require any capex in next few years and would continue to follow asset light strategy by focusing on sourcing from third party vendors.

## Outlook and valuation

The company is positive on its business in the longer run and aims to add Rs 10 bn revenue in next 5 years with better margins of over 15%. Presently it is undergoing through transformation phase and is focusing on strengthening of its internal systems through appointment of consultant and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 7% and 10.2% respectively, factoring lower growth in volume and EBITDA margins as the transformation in business may take 4-6 quarters.

The stock is trading at PE of 24.2x and 20x on FY19E and FY20E revised EPS of Rs 13 and 15.6, respectively. We maintain our Buy rating on the stock with revised target price of Rs 437 (Vs Rs 505 earlier). We have valued the stock at 28x FY20E EPS (Vs 29x earlier due to company undergoing through consolidation). At our target price, the stock would be trading at discount to its peers.

## Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	11046	12557	10709	11988	(3.0)	(4.5)
EBITDA margin (%)	13.3	14.1	12.8	13.3	(47 bps)	(79 bps)
PAT	790	987	735	886	(7.0)	(10.2)
EPS (Rs)	13.9	17.4	13.0	15.6	(7.0)	(10.2)

Source: Kotak Securities - Private Client Research

## 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.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>8,973</b>	<b>9,825</b>	<b>10,709</b>	<b>11,988</b>
% change yoy	9.2	9.5	9.0	11.9
<b>EBITDA</b>	<b>926</b>	<b>1,239</b>	<b>1,374</b>	<b>1,596</b>
% change yoy	40.8	33.8	10.9	16.2
Depreciation	148	122	134	150
<b>EBIT</b>	<b>778</b>	<b>1,117</b>	<b>1,240</b>	<b>1,446</b>
Other Income	86	20	20	20
Interest	197	179	160	140
Profit Before Tax	667	958	1,100	1,326
% change yoy	63.2	43.5	14.8	20.5
Tax	233	318	365	440
as % of EBT	34.9	33.2	33.2	33.2
<b>PAT</b>	<b>435</b>	<b>640</b>	<b>735</b>	<b>886</b>
% change yoy	64.9	47.3	14.8	20.5
Shares outstanding (mn)	54	57	57	57
<b>EPS (Rs)</b>	<b>8.0</b>	<b>11.3</b>	<b>13.0</b>	<b>15.6</b>
DPS (Rs)	1.0	1.6	1.8	2.2
CEPS(Rs)	10.7	13.4	15.3	18.3
BVPS(Rs)	33.4	62.2	73.3	86.8

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	667	958	1,100	1,326
Depreciation	148	122	134	150
Change in WC	(525)	(950)	(368)	(534)
Other operating activities	(271)	(533)	(365)	(440)
<b>Operating Cash Flow</b>	<b>20</b>	<b>(403)</b>	<b>501</b>	<b>502</b>
Capex	(53)	(79)	(200)	(200)
Free Cash Flow	(33)	(482)	301	302
Change in Investments	(3)	(35)	-	-
<b>Investment cash flow</b>	<b>(56)</b>	<b>(113)</b>	<b>(200)</b>	<b>(200)</b>
Equity Raised	31	1,168	-	-
Debt Raised	110	(464)	(200)	(200)
Dividend & others	(111)	(90)	(103)	(124)
<b>CF from Financing</b>	<b>29</b>	<b>615</b>	<b>(303)</b>	<b>(324)</b>
Change in Cash	(7)	98	(2)	(22)
Opening Cash	104	97	195	193
<b>Closing Cash</b>	<b>97</b>	<b>195</b>	<b>193</b>	<b>171</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	108	113	113	113
Reserves	1,701	3,414	4,046	4,808
Net worth	1,809	3,527	4,159	4,921
Borrowings	2,163	1,700	1,500	1,300
Net Deferred tax	24	4	4	4
<b>Total Liabilities</b>	<b>3,996</b>	<b>5,231</b>	<b>5,663</b>	<b>6,225</b>
Gross block	1,514	1,572	1,772	1,972
Depreciation	766	888	1,021	1,171
Net block	748	684	750	801
Capital work in progress	0	21	21	21
Total fixed assets	749	705	772	822
Investments	3	38	38	38
Inventories	2,049	2,829	3,083	3,452
Sundry debtors	2,265	2,717	2,962	3,315
Cash and equivalents	97	195	193	171
Loans and advances & Others	134	30	35	40
Total current assets	4,545	5,771	6,273	6,978
Sundry creditors and others	1,168	1,412	1,540	1,723
Provisions	154	88	97	107
Total CL & provisions	1,322	1,501	1,636	1,830
Net current assets	3,223	4,271	4,636	5,148
Other net assets	22	218	218	218
<b>Total Assets</b>	<b>3,996</b>	<b>5,231</b>	<b>5,663</b>	<b>6,225</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
<b>Profitability Ratios</b>				
EBITDA margin (%)	10.3	12.6	12.8	13.3
EBIT margin (%)	8.7	11.4	11.6	12.1
Net profit margin (%)	4.8	6.5	6.9	7.4
Adjusted EPS growth (%)	17.9	40.7	14.8	20.5
<b>Balance Sheet Ratios:</b>				
Receivables (days)	92	101	101	101
Inventory (days)	83	105	105	105
Loans & Advances	5	1	1	1
Payable (days)	48	52	52	52
Cash Conversion Cycle	133	155	155	155
Asset Turnover (x)	2.2	1.9	1.9	1.9
Net Debt/ Equity (x)	1.1	0.4	0.3	0.2
<b>Return Ratios:</b>				
RoCE (%)	20.6	24.2	22.8	24.3
RoE (%)	26.6	24.0	19.1	19.5
<b>Valuation Ratios:</b>				
P/E (x)	39.0	27.7	24.2	20.0
P/BV (x)	9.4	5.0	4.3	3.6
EV/EBITDA (x)	20.6	15.5	13.9	11.8
EV/Sales (x)	2.1	2.0	1.8	1.6

Source: Company, Kotak Securities – Private Client Research