

Result Update

Stock Details

Market cap (Rs mn)	:	11689
52-wk Hi/Lo (Rs)	:	355 / 176
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	9,498
Shares o/s (mn)	:	57

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	10,288	10,902	11,985
Growth (%)	11.2	6.0	9.9
EBITDA	1,357	1,433	1,576
EBITDA margin (%)	13.2	13.1	13.1
PAT	753	754	841
EPS	13.3	13.3	14.8
EPS Growth (%)	18	0	12
Book value (Rs/share)	74	85	98
Dividend per share (Rs)	1.7	1.7	1.9
ROE (%)	19.5	16.7	16.2
ROCE (%)	21.7	19.9	19.9
P/E (x)	15.5	15.5	13.9
EV/EBITDA (x)	10.0	9.5	8.6
P/BV (x)	2.8	2.4	2.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun 19	Mar 19	Dec 18
Promoters	57.3	57.3	57.3
FII	0.3	0.3	0.3
DII	8.1	8.1	8.1
Others	34.3	34.3	34.3

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(17.2)	(20.1)	(30.8)
Nifty	(8.1)	(5.6)	(1.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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DOLLAR INDUSTRIES LTD (DIL)

PRICE RS.206

TARGET RS.223

ADD

DIL Q1 FY20 results were below our estimates in terms of revenue and PAT on account of decline in sales across all brands except Missy due to weak consumer demand and tightness of liquidity in the system.

Key Highlights

- DIL reported 4.1% yoy decline in standalone revenue (vs 9% growth estimates) with EBITDA margin declined marginally by 10 bps yoy to 11.5%. The decline in revenue was driven by 15.9% yoy decline in volume. Except Missy which grew by 18% yoy, all brands/segment declined in the quarter. Weak consumer demand and liquidity challenges in the system negatively impacted business in the quarter.
- DIL is undergoing through consolidation and has appointed consultant for business transformation and strengthening distribution system. It has completed first phase of pilot project and has implemented the same in two states. As per management, this exercise will be completed in the next two to three years.
- DIL management is targeting for 10%-12% revenue growth in FY20E based on improvement in performance expected from Q3FY20 onwards.

Valuation & outlook

The company is in process of strengthening its internal systems and improving distribution which will take long time in yielding meaningful results. We have cut our EPS estimates for FY20E and FY21E by 7% and 9% respectively factoring in slowdown in H1FY20. The stock is trading at PE of 15.5x and 13.9x based on FY20E and FY21E revised EPS of Rs 13.3 and 14.8, respectively. We maintain ADD on the stock with revised target price of Rs 223 (Vs Rs 293 earlier), valuing the stock at 15x FY21E (vs 18x FY21E earlier). We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

Quarterly Financial Table (standalone)

Year to March (INR Mn.)	Q1FY20	Q1FY19	%Change	Q4FY19	%Change
Net Revenues	2,336	2,437	(4.1)	2,978	(21.6)
Raw Materials Cost	962	1,005	(4.3)	1,402	(31.4)
Gross Profit	1,374	1,432	(4.0)	1,576	(12.8)
Employee Expenses	96	75	28.9	92	4.8
Sub-contract Exp	467	510	(8.5)	557	(16.2)
Other Expenses	542	564	(4.0)	583	(7.0)
Operating Expenses	2,066	2,154	(4.1)	2,634	(21.6)
EBITDA	270	283	(4.6)	344	(21.6)
EBITDA margin	11.5%	11.6%		11.6%	
Depreciation	32	26	22.8	27	19.1
Other income	3	2	114.7	7	(51.1)
Net finance expense	42	34	20.9	49	(14.9)
Profit before tax	200	224	(10.8)	275	(27.5)
Provision for taxes	71	86	(17.6)	50	41.9
Reported net profit	129	138	(6.6)	226	(42.8)
As % of net revenues					
COGS	41.2	41.2		47.1	
Operating expenses	88.5	88.4		88.4	
Reported net profit	5.5	5.7		7.6	
Tax rate (% of PBT)	35.4	38.3		18.1	

Source: Company

Revenue declined by 4.1%, missed our estimates

Net revenue in Q1FY20 declined by 4.1% yoy to Rs 2.3 bn (as against our estimates of Rs 2.65 bn). The company reported 15.9% yoy decline in volume which stood at 37 mn pcs in Q1FY20. Except Missy which grew by 18% yoy, all brands have reported decline in sales in the quarter. Dollar Bigboss declined by 5%, Force NXT declined by 20%, Champion declined 10%, economy range of products declined by 8%. As per the management, weak consumer demand and liquidity challenges in the system negatively impacted business in the quarter.

Further, the company is in process of consolidation and has appointed consultant for business transformation and is strengthening its distribution system. It has completed first phase of pilot project and has implemented the same in two states through four distributors, two in each states of Karnataka and Rajasthan. As per management, this exercise will be completed in the next two to three years.

In Q1FY20, 46.5% revenue was contributed by Bigboss, 36% by regular, 2% by Force NXT, 9% by Missy, 5% by Force Gowear and 0.5% through JV supply (with Pepe Jeans). The company is focusing on strengthening its retail presence by increasing presence in modern retail, online, etc. The company is also focusing on expanding product range in Missy and Bigboss by adding new product ranges in athleisure segment.

EBITDA margin better than our estimates

EBITDA for the quarter declined by 4.6% on yoy to Rs 270 mn and was below our estimates of Rs 292 mn, due to lower revenue. EBITDA margin at 11.5% was ahead of our estimates of 11%. The cotton prices have declined in the recent past which will help the company in maintaining its margin. Employee cost increased by 28% on yoy as the company has recruited new employees in order to focus on increasing penetration in the retail. The company has maintained full year ad budget of Rs 900 mn (Vs Rs 1 bn in FY19), as it targets to rationalize ad spend. It has spent Rs 320 mn on this account in Q1FY20. PAT for the quarter declined by 6.6% yoy to Rs 129 mn Vs estimates of Rs 152 mn.

Targets 10-12% revenue growth in FY20E with improved demand in H2FY20

DIL management has targeted for 10%-12% revenue growth on full year basis with improvement expected from Q3FY20 onwards. The company expects improved demand in the winter season and Q4FY20 as well. Earlier, the company had guided for 15% revenue growth with improved EBITDA margin over a longer period. The company expects that the benefits from strengthening of its system through appointment of consultant would take some more time in terms of yielding complete results.

Other highlights

- JV with Pepe jeans for innerwear products is operating as per expectations. The company started selling the same in Northern market. The company has invested Rs 70 mn in JV in FY19 and would further invest Rs 90 mn in FY20E.
- The company has incurred Rs 100 mn capex for buying out some machinery which resulted in Rs 70 mn increased term loan. It does not require any major capex in the next two years and would continue to follow asset light strategy by focusing on sourcing from third party vendors.
- Working capital increased on yoy with debtors at ~100 days, inventory at ~100 days and creditor at ~50 days.

- The company has total Rs 1.97 bn of gross debt at the end of Q1FY20 which included Rs 1.87 bn of working capital debt and Rs 100 mn of term loan. Liquidity concerns in the channel resulted in higher inventory and debtors. The company intends to control debtors based on various majors adopted as part of restructuring of its channel. It has adopted channel financing and is also increasing discounts which can result in lower debtor.

Outlook and valuation

DIL is positive on its business in the longer run and aims to grow at 15% CAGR over a longer period with better margins. Presently, it is undergoing through transformation phase and is focusing on strengthening its internal systems through appointment of consultant and improving distribution of high value brands. We believe that, this exercise will take longer time in yielding meaningful results.

We have cut our EPS estimates for FY20E and FY21E by 7% and 9% respectively factoring in slowdown in H1FY20. The stock is trading at PE of 15.5x and 13.9x on FY20E and FY21E revised EPS of Rs 13.3 (vs Rs 14.3 earlier) and 14.8 (Vs Rs 16.3 earlier), respectively. We maintain ADD rating on the stock with revised target price of Rs 223 (Vs Rs 293 earlier), valuing the stock at 15x FY21E (vs 18x FY21E earlier). We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	11410	12751	10902	11985	-4.5	-6.0
EBITDA margin (%)	13.3	13.3	13.1	13.1	-20 bps	-20 bps
PAT	809	923	754	841	-7.0	-9.0
EPS (Rs)	14.3	16.3	13.3	14.8	-7.0	-9.0

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: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	9,256	10,288	10,902	11,985
% change yoy	3.1	11.2	6.0	9.9
EBITDA	1,239	1,357	1,433	1,576
% change yoy	33.8	9.5	5.6	10.0
Depreciation	122	111	120	129
EBIT	1,117	1,246	1,312	1,447
Other Income	20	22	22	22
Interest	179	157	174	174
Profit Before Tax	958	1,110	1,160	1,295
% change yoy	43.5	15.9	4.5	11.6
Tax	318	358	406	453
as % of EBT	33.2	32.2	35.0	35.0
PAT	640	753	754	841
% change yoy	47.3	17.6	0.2	11.6
Shares outstanding (mn)	57	57	57	57
EPS (Rs)	11.3	13.3	13.3	14.8
DPS (Rs)	1.6	1.7	1.7	1.9
CEPS(Rs)	13.4	15.2	15.4	17.1
BVPS(Rs)	62.2	73.6	85.2	98.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	958	1,110	1,160	1,295
Depreciation	122	111	120	129
Change in WC	(1221)	(906)	(537)	(594)
Other operating activities	(251)	(442)	(406)	(453)
Operating Cash Flow	(392)	(126)	337	376
Capex	(79)	(128)	(150)	(100)
Free Cash Flow	(471)	(254)	187	276
Change in Investments	(47)	(41)	-90	-90
Investment cash flow	(126)	(169)	(240)	(190)
Equity Raised	1169	0	0	0
Debt Raised	(464)	412	0	0
Dividend & others	(91)	(103)	(97)	(108)
CF from Financing	615	309	(97)	(108)
Change in Cash	97	14	1	78
Opening Cash	97	194	207	208
Closing Cash	193	207	208	286

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	113	113	113	113
Reserves	3,414	4,063	4,721	5,455
Net worth	3,527	4,177	4,834	5,568
Borrowings	1,700	2,112	2,112	2,112
Other net liability	69	-	-	-
Total Liabilities	5,296	6,289	6,946	7,680
Gross block	1,572	1,701	1,851	1,951
Depreciation	888	998	1,119	1,248
Net block	684	702	732	703
Capital work in progress	21	20	20	20
Total fixed assets	705	722	752	723
Investments	50	91	181	271
Inventories	2,829	3,246	3,584	3,940
Sundry debtors	2,717	3,476	3,734	4,105
Cash and equivalents	194	207	208	286
Loans and advances & Others	236	329	378	434
Total current assets	5,976	7,258	7,904	8,766
Sundry creditors and others	1,412	1,776	1,882	2,069
Provisions	23	21	23	25
Total CL & provisions	1,435	1,797	1,906	2,095
Net current assets	4,541	5,460	5,998	6,671
Other net assets	-	15	15	15
Total Assets	5,296	6,289	6,946	7,680

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	13.4	13.2	13.1	13.1
EBIT margin (%)	12.1	12.1	12.0	12.1
Net profit margin (%)	6.9	7.3	6.9	7.0
Adjusted EPS growth (%)	40.7	17.6	0.2	11.6
Balance Sheet Ratios:				
Receivables (days)	107	123	125	125
Inventory (days)	112	115	120	120
Loans & Advances	9	12	13	13
Payable (days)	56	63	63	63
Cash Conversion Cycle	172	187	195	195
Asset Turnover	1.8	1.6	1.6	1.6
Net Debt/ Equity	0.4	0.5	0.4	0.3
Return Ratios:				
RoCE (%)	24.2	21.7	19.9	19.9
RoE (%)	24.0	19.5	16.7	16.2
Valuation Ratios:				
P/E (x)	18.3	15.5	15.5	13.9
P/BV (x)	3.3	2.8	2.4	2.1
EV/EBITDA (x)	10.6	10.0	9.5	8.6
EV/Sales (x)	1.4	1.3	1.2	1.1

Source: Company, Kotak Securities – Private Client Research

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ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1860 266 9191
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91-(022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach Managing Director / CEO (Mr. Jaideep Hansraj) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.