

Result Update

Stock Details

Market cap (Rs mn)	:	9358
52-wk Hi/Lo (Rs)	:	335 / 164
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	9,509
Shares o/s (mn)	:	57

Source: Bloomberg dated 13 Nov 2019

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	10,288	10,062	10,942
Growth (%)	11.2	-2.2	8.7
EBITDA	1,357	1,097	1,250
EBITDA margin (%)	13.2	10.9	11.4
PAT	753	608	713
EPS	13.3	10.7	12.6
EPS Growth (%)	18	(19)	17
Book value (Rs/share)	74	83	94
Dividend per share (Rs)	1.7	1.4	1.6
ROE (%)	19.5	13.7	14.2
ROCE (%)	21.7	14.9	15.6
P/E (x)	12.6	15.6	13.3
EV/EBITDA (x)	8.4	10.5	9.2
P/BV (x)	2.3	2.0	1.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-19	Jun-19	Mar-19
Promoters	60.1	57.3	57.3
FII	0.3	0.3	0.3
DII	8.3	8.1	8.1
Others	31.4	34.3	34.3

Source: Bloomberg dated 13 Nov 2019

Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(9.7)	(24.5)	(33.8)
Nifty	4.7	6.6	5.0

Source: Bloomberg dated 13 Nov 2019

Price chart (Rs)



Source: Bloomberg dated 13 Nov 2019

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DOLLAR INDUSTRIES LTD

PRICE RS.167

TARGET RS.176

ADD

DIL reported mixed Q2FY20 standalone results with headline revenue and PAT were inline, while EBITDA margins were below our estimates. Continued weak consumer demand, high cost inventory, higher discounts and tightness of liquidity in the system negatively impacted volumes, gross margin and working capital in the quarter.

Key Highlights

- DIL reported flattish revenue with EBITDA margin declined by 530 bps yoy to 9.6% driven by 1030 bps yoy decline in gross margin. The company reported 11.5% yoy decline in volume which was offset by 5% growth in realization and growth in other operating income. Weak consumer demand on rural side and continued liquidity challenges in the system negatively impacted volume in the quarter.
- DIL is undergoing through consolidation phase and has appointed consultant for business transformation and strengthening distribution system. It has completed pilot project and is presently in process of implementing changes in the system. As per management, this exercise will be completed in the next one and half years.
- DIL management is expecting improvement in margins in the coming quarter based on improved product mix led by higher realization products and advantage from lower raw material prices.

Quarterly Financial Table (standalone)

Year to March (INR Mn)	Q2FY20	Q2FY19	% Chg	Q1FY20	% Chg
Net Revenues	2,432	2,428	0.2	2,336	4.1
Raw Materials Cost	1,206	954	26.4	962	25.4
Gross Profit	1,226	1,474	(16.8)	1,374	(10.8)
Employee Expenses	102	85	20.6	96	5.9
Sub-contract Exp	468	575	(18.7)	467	0.2
Other Expenses	424	452	(6.3)	542	(21.8)
Operating Expenses	2,199	2,066	6.5	2,066	6.4
EBITDA	233	362	(35.6)	270	(13.6)
EBITDA margin	9.6%	14.9%		11.5%	
Depreciation	37	27	35.1	32	15.9
Other income	5	2	108.9	3	49.8
Net finance expense	38	35	7.1	42	(9.8)
Profit before tax	164	302	(45.8)	200	(18.0)
Provision for taxes	27	107	(74.6)	71	(61.7)
Reported net profit	137	195	(30.1)	129	5.9
As % of net revenues					
COGS	49.6	39.3		41.2	
Employee cost	4.2	3.5		4.1	
Sub-contract Exp	19.2	23.7		20.0	
Other Expenses	17.4	18.6		23.2	
Operating expenses	90.4	85.1		88.5	
Reported net profit	5.6	8.0		5.5	
Tax rate (% of PBT)	16.6	35.3		35.4	

Source: Company

Valuation & outlook

The company is in process of strengthening its internal systems and improving distribution which will take long time in yielding meaningful results. Further, worsening of working capital cycle due to continued liquidity challenges and payment issues from its channel partner are cause of concern. We have cut our EPS estimates for FY20E and FY21E factoring in decline in volume, lower margins and higher working capital. The stock is trading at PE of 15.6x and 13.3x based on FY20E and FY21E revised EPS of Rs 10.7 (Vs Rs 15.2) and 12.6 (Vs Rs 17), respectively. We maintain **ADD** on the stock with revised target price of Rs 176 (Vs Rs 255 earlier), valuing the stock at 14x (Vs 15x earlier), factoring in increased challenges in the business.

Flattish revenue, Decline in volume

Net revenue in Q2FY20 was flattish at Rs 2.4 bn. The company reported 11.5% yoy decline in volume which stood at 3.64 mn pcs in Q2FY20. Most of the brands like Dollar Bigboss, economy range of products declined in the quarter in volume terms. As per management, weak consumer demand particularly on the rural side 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 pilot project and is presently in process of implementing changes in the system with first such implementation in a southern city is expected to be completed by December 2019 end. As per management, this exercise will be rolled out to other states and are expected to be completed in the next one and half years.

In H1FY20, 46.5% revenue was contributed by Bigboss, 34% by regular, 2% by Force NXT, 9% by Missy, 4% by Force Gowear, 0.5% through JV supply (with Pepe Jeans), 0.5% from Champion kids, etc. The company is focusing on strengthening its presence in athleisure and with its athleisure range of products under brand name Dollar Bigboss and Force Next. These products have done well in the quarter. The company has launched 80 new athleisure products in the quarter and the category contributed 2% to its quarterly revenue.

Further, the company expects improved demand for thermal wear due to lower inventory in the system (due to strong winter season in the last year resulting in lower old inventory). Hence, the replenishment of inventory in the system is expected to drive volume for the segment in Q3FY20.

EBITDA margin lower than our estimates

EBITDA for the quarter declined by 35.6% on yoy to Rs 233 mn with EBITDA margin at 9.6% as against estimates of 11.5%. EBITDA margin declined by 530 bps yoy driven by 1030 bps yoy decline in gross margin. As per management, high cost cotton inventory and certain discounts in the quarter have impacted margin. The company expects improved margin in the coming quarter as it has liquidated old high cost inventory and the lower raw material cost would help in protecting margins. The company has spent Rs 429 mn as ad spend in H1FY20 and has maintained full year ad budget of ~Rs 900 mn as it targets to rationalize ad spend. PAT for the quarter declined by 30.1% yoy to Rs 137 mn Vs estimates of Rs 139 mn.

Targets improved performance in coming quarters

DIL management expects improved gross and operating margin in coming quarters based on benefits from lower cost raw material and better product mix. The company expects improved demand in the winter season. Earlier, the company had guided for 15% revenue growth with improved EBITDA margin over a longer period. But the current slowdown in the demand has negatively impacted growth outlook in the medium term. Further, 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 and expects to expand presence in eastern and western region. Pepe has generated ~Rs 90 mn of revenue in H1FY20 with a minor loss of Rs 2.2 mn and expects improved profitability in the business.
- As per company, working capital at the end of H1FY20 has increased with debtors at ~126 days (Vs 110 days in FY19), inventory at ~121 days (Vs 108 days in FY19) and creditor at ~50 days (Vs 46 days in FY19).
- As per management, 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 it believes can help in controlling working capital.

Outlook and valuation

DIL is positive on its business in the longer run but currently it is undergoing through transformation phase and is focusing on strengthening its internal systems through appointment of consultant and revamping distribution. We believe that, this exercise will take longer time in yielding meaningful results.

Further, worsening of working capital cycle due to continued liquidity challenges and payment issues from its channel partner are cause of concern. We have cut our EPS estimates for FY20E and FY21E factoring in decline in volume, lower margins and higher working capital. The stock is trading at PE of 15.6x and 13.3x based on FY20E and FY21E revised EPS of Rs 10.7 (Vs Rs 15.2) and 12.6 (Vs Rs 17), respectively. We maintain ADD on the stock with revised target price of Rs 176 (Vs Rs 255 earlier), valuing the stock at 14x (Vs 15x earlier), factoring in increased challenges in the business.

Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	10902	11985	10062	10942	-7.7	-8.7
EBITDA margin (%)	13.1	13.1	10.9	11.4	-220 bps	-170 bps
PAT	863	963	608	713	-29.6	-26.0
EPS (Rs)	15.2	17.0	10.7	12.6	-29.6	-26.0

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	10,062	10,942
% change yoy	3.1	11.2	-2.2	8.7
EBITDA	1,239	1,357	1,097	1,250
% change yoy	33.8	9.5	-19.1	13.9
Depreciation	122	111	120	129
EBIT	1,117	1,246	977	1,121
Other Income	20	22	18	18
Interest	179	157	177	181
Profit Before Tax	958	1,110	817	958
% change yoy	43.5	15.9	(26.4)	17.2
Tax	318	358	209	245
as % of EBT	33.2	32.2	25.6	25.6
PAT	640	753	608	713
% change yoy	47.3	17.6	(19.2)	17.2
Shares outstanding (mn)	57	57	57	57
EPS (Rs)	11.3	13.3	10.7	12.6
DPS (Rs)	1.6	1.7	1.4	1.6
CEPS (Rs)	13.4	15.2	12.8	14.8
BVPS (Rs)	62.2	73.6	83.0	93.9

Source: Company, Kotak Securities – Private Client Group

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	958	1110	817	958
Depreciation	122	111	120	129
Change in WC	(1221)	(906)	(532)	(529)
Other operating activities	(251)	(442)	(209)	(245)
Operating Cash Flow	(392)	(126)	197	312
Capex	(79)	(128)	(150)	(100)
Free Cash Flow	(471)	(254)	47	212
Change in Investments	(47)	(41)	-90	-90
Investment cash flow	(126)	(169)	(240)	(190)
Equity Raised	1169	0	0	0
Debt Raised	(464)	412	70	30
Dividend & others	(91)	(103)	(78)	(91)
CF from Financing	615	309	(8)	(61)
Change in Cash	97	14	(51)	61
Opening Cash	97	194	207	156
Closing Cash	193	207	156	217

Source: Company, Kotak Securities – Private Client Group

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	113	113	113	113
Reserves	3,414	4,063	4,594	5,215
Net worth	3,527	4,177	4,707	5,328
Borrowings	1,700	2,112	2,182	2,212
Other net liability	69	-	-	-
Total Liabilities	5,296	6,289	6,889	7,540
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	3,897
Sundry debtors	2,717	3,476	3,584	3,897
Cash and equivalents	194	207	156	217
Loans and advances & Others	236	329	378	434
Total current assets	5,976	7,258	7,701	8,446
Sundry creditors and others	1,412	1,776	1,737	1,889
Provisions	23	21	23	25
Total CL & provisions	1,435	1,797	1,760	1,915
Net current assets	4,541	5,460	5,941	6,531
Other net assets	-	15	15	15
Total Assets	5,296	6,289	6,889	7,540

Source: Company, Kotak Securities – Private Client Group

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Profitability Ratios				
EBITDA margin (%)	13.4	13.2	10.9	11.4
EBIT margin (%)	12.1	12.1	9.7	10.2
Net profit margin (%)	6.9	7.3	6.0	6.5
Adjusted EPS growth (%)	40.7	17.6	(19.2)	17.2
Balance Sheet Ratios:				
Receivables (days)	107	123	130	130
Inventory (days)	112	115	130	130
Loans & Advances	9	12	14	14
Payable (days)	56	63	63	63
Cash Conversion Cycle	172	187	211	211
Asset Turnover	1.8	1.6	1.5	1.5
Net Debt/ Equity	0.4	0.5	0.4	0.4
Return Ratios:				
RoCE (%)	24.2	21.7	14.9	15.6
RoE (%)	24.0	19.5	13.7	14.2
Valuation Ratios:				
P/E (x)	14.8	12.6	15.6	13.3
P/BV (x)	2.7	2.3	2.0	1.8
EV/EBITDA (x)	8.9	8.4	10.5	9.2
EV/Sales (x)	1.2	1.1	1.1	1.0

Source: Company, Kotak Securities – Private Client Group

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BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
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- **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.