RESULT UPDATE

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DOLLAR INDUSTRIES LTD

PRICE: RS. 475 **RECOMMENDATION: BUY**
TARGET PRICE: RS. 560 **FY19E PE: 32.1X**

Dollar Industries Ltd (DIL) Q2FY18 results were inline with our estimates. The Net revenue for the quarter was at Rs 2.13 bn which was up by 8% yoy and was below our estimates due to GST impacting volumes in the quarter. EBITDA for the quarter grew by 19% yoy to Rs 291 mn with EBITDA margin ahead of estimates at 13.7% (vs our estimates of 12%). This is due to improved efficiency, better product mix, input tax credit and increase in selling price. PAT grew by 27% yoy on strong margin and reduction in term loan resulting in decline in interest expenses. The management has maintained positive outlook for H2FY18 and guided for ~30% yoy growth in revenue with better margins. This would be driven by restocking in the system, strong performance by brands and strong winter positively impacting thermalwears products. We have revised our estimates factoring in better margins and lower interest expenses led by debt reduction through preferential allotment of shares to the promoters. We maintain our positive view on the company and expect company's PAT to grow faster than revenue in the longer run. The stock is trading at PE of 32.1x on FY19 revised EPS of Rs 14.8. We maintain Buy rating on the stock with revised target price of Rs 560 (Vs Rs 550 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Revenue	8973	9951	11445
Growth (%)	9.2	10.9	15.0
EBITDA	926	1208	1522
EBITDA margin (%)	10.3	12.1	13.3
PBT	667	962	1286
PAT	435	627	838
EPS	8.0	11.1	14.8
EPS Growth (%)	18	38	34
CEPS (Rs)	11	14	18
Book value (Rs/share)	33.4	60.5	73
Dividend per share (Rs)	1.0	1.4	1.8
ROE (%)	26.6	23.9	22.1
ROCE (%)	20.6	20.9	22.8
Net cash (debt)	(2066)	327	(511)
NW Capital (Days)	122	122	122
P/E (x)	59.2	43.0	32.1
P/BV (x)	14.2	7.8	6.5
EV/EBITDA (x)	30.0	22.0	18.0
EV/Sales (x)	3.1	2.7	2.4

Source: Company, Kotak Securities – Private Client Research

Result Table

Year to March (INR Mn.)	Q2FY18	Q2FY17	% Chg	Q1FY18	% Chg
Net Revenues	**2,127**	**1,972**	**7.9**	**2,394**	**(11.2)**
Raw Materials Cost	902	959	(5.9)	1,106	(18.4)
Gross Profit	**1,225**	**1,012**	**21.0**	**1,288**	**(4.9)**
Employee Expenses	64	47	35.7	53	22.7
Other Expenses	870	721	20.7	978	(11.1)
Operating Expenses	1,836	1,727	6.3	2,137	(14.0)
EBITDA	**291**	**244**	**18.9**	**258**	**12.7**
EBITDA margin (%)	13.7	12.4		10.8	
Depreciation	30	28	6.3	29	0.9
Other income	10	5	110.9	1	687.1
Net finance expense	46	62	(26.1)	46	0.1
Profit before tax	**225**	**159**	**41.4**	**184**	**22.3**
Provision for taxes	76	45	-	59	29.5
Reported net profit	**149**	**114**	**30.7**	**125**	**18.9**
As % of net revenues					
COGS	42.4	48.6		46.2	
Employee cost	3.0	2.4		2.2	
Other Expenses	40.9	36.5		40.8	
Operating expenses	86.3	87.6		89.2	
EBITDA	13.7	12.4		10.8	
Reported net profit	7.0	5.8		5.2	
Tax rate (% of PBT)	33.8	28.4		31.9	

Source: Company

Positive outlook for H2FY18

Net revenue for the quarter was at Rs2.13 bn which was up by 8% as against our estimates of 12% yoy growth. This is due to demand impacted by GST related destocking and restocking that happened towards the end of September 2017 month. As per the management, the demand scenario has improved post GST and expect H2FY18 to be much better than H1FY18 with revenue expected to be ~Rs 5.8 bn (or ~30% yoy growth). This would be driven by restocking in the system, robust performance by brands and strong winter positively impacting thermal products.

Premium segment to do well

Premium and mid segment brands performed well in H1FY18 on yoy with Big Boss contributing 45% (vs 44%), Missy 7.3% (Vs 6%), Force NXT 3.8% (Vs 2%) and Champion 5.6% (vs 2%) of revenues. The volume in H1FY18 grew by 1.8% yoy while price increased by 2.6% yoy in the period. The company is positive on its premium end brand Force NXT and expect the segment to grow at over 100% in coming years. As per management, Force NXT competes with entry level products of Jockey with relatively better product quality and design. Further, its JV with Pepe Jeans would be operational by Q4FY18 end and is expected to contribute Rs 600 mn revenue in its first year and be EBITDA positive in two years. The company is investing ~Rs 380 mn in the same of which Rs 80 mn will be infused in FY18E.

EBITDA improved by 130 bps, expect trend to continue

EBITDA for the quarter grew by 19% yoy to Rs 291 mn with EBITDA margin was ahead of estimates at 13.7% (vs our estimates of 12%). The gross margins improved on price hike and input tax credit on raw materials like packing material, etc. EBITDA margins improved by 130 bps yoy, due to improved efficiency, better product mix, input tax credit and increase in selling price. The company expects margins to improve in coming quarter. The selling and distribution expenses increased as company adopted push strategy during the GST implementation. Interest expenses declined by 26% yoy to Rs 46 mn as the company reduced term loan through proceeds of preferential allotment of 2.5 mn shares to the promoters at Rs 430/share. Higher margins and lower interest expenses resulted in 30.7% yoy in PAT for the quarter which stood at Rs 149mn (Vs our estimates of Rs 145 mn).

Outlook and valuation

We maintain BUY on Dollar Industries Ltd with a revised price target of Rs.560

The management has given positive outlook on H2FY18 with ~ Rs 5.8 bn revenue and further improvement in margins led by restocking in the system, robust performance by brands and strong winter positively impacting thermal products. We are revising our EPS estimates factoring in better margins and lower interest cost. We maintain our positive view on the company and expect company's PAT to grow faster than revenue in the longer run. The stock is trading at PE of 32.1x on FY19E revised EPS of Rs 14.8. We maintain **BUY** rating on the stock with revised target price of Rs 560 (Vs Rs 550 earlier), based on average of all multiples (PE, EV/EBITDA, EV/Sales). At our target price, the stock would be trading at steep discount to Page Industries.

Revision in Estimates

Particulars (Rs mn)	Previous		Revised		% Chg	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	9951	11445	9951	11445	0.0	0.0
EBITDA margin (%)	11.3	12.9	12.1	13.3	84 bps	40 bps
PAT	561	787	627	838	11.7	6.5
EPS (Rs)	10.4	14.5	11.1	14.8	6.3	1.9

Source: Kotak Securities - Private Client Research