

## Result Update

### Stock Details

Market cap (Rs mn)	:	16107
52-wk Hi/Lo (Rs)	:	478 / 248
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	14,179
Shares o/s (mn)	:	57

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	9,256	10,346	11,611
Growth (%)	3.1	11.8	12.2
EBITDA	1,239	1,390	1,553
EBITDA margin (%)	13.4	13.4	13.4
PAT	640	716	847
EPS	11.3	12.6	14.9
EPS Growth (%)	41	12	18
Book value (Rs/share)	62.2	74	89
Dividend per share (Rs)	0.4	0.4	0.5
ROE (%)	24.0	18.5	18.3
ROCE (%)	24.2	23.1	23.4
P/E (x)	25.3	22.7	19.1
EV/EBITDA (x)	14.3	12.7	11.2
P/BV (x)	4.6	3.8	3.2

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	57.3	57.0	56.8
FII	0.3	0.4	2.0
DII	8.1	8.1	7.7
Others	34.3	34.5	33.5

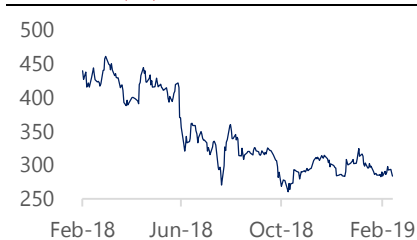
Source: Bloomberg, BSE

### Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(6.3)	(8.3)	(9.5)
Nifty	(0.0)	2.0	(4.9)

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

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## DOLLAR INDUSTRIES LTD (DIL)

PRICE Rs.285

TARGET Rs.344

BUY

DIL Q3FY19 results were marginally below our estimates with increased contribution from thermal wear while Force NXT continued to decline.

### Key Highlights

- DIL reported lower than expected revenue growth of 9.8% yoy due to lower volume growth of 3% in the quarter. The company reported strong volume growth in Thermal wear, while Force NXT and Champion witnessed volume decline. The company ran pilot project in south through its consultant in order to strengthen distribution and increase penetration.
- EBITDA margin declined 140 bps yoy to 15.1% (but was ahead of estimates) due higher other expenses and employee expenses. The company is launching new TVC and expect higher advertisement expenditure due to upcoming sports event, resulting in overshooting of ad budget for FY19E.
- DIL management has maintained guidance for 15% revenue CAGR in the longer run with improved margins. The company showed confidence in meeting earlier revenue growth guidance of over 12% for FY19E with improvement in EBITDA margins.

### Valuation & outlook

The company is in process of strengthening its internal systems and improving distribution of high value brands. We have marginally revised our EPS estimates for FY19E & FY20E. The stock is trading at PE of 22.7x and 19.1x on FY19E and FY20E EPS of Rs 12.6 and Rs 14.9, respectively. We maintain our Buy rating on the stock with revised target price of Rs 344 (Vs Rs 390 earlier) valuing at 23x FY20E (vs 25x earlier) based on near term growth challenges due to ongoing business transformation exercise.

### Quarterly Financial Table (standalone)

Year to March (INR Mn.)	Q3FY19	Q3FY18	% Chg	Q2FY19	% Chg
<b>Net Revenues</b>	<b>2,445</b>	<b>2,227</b>	<b>9.8</b>	<b>2,428</b>	<b>0.7</b>
Raw Materials Cost	975	894	9.1	954	2.2
<b>Gross Profit</b>	<b>1,471</b>	<b>1,333</b>	<b>10.3</b>	<b>1,474</b>	<b>(0.2)</b>
Employee Expenses	85	68	25.5	85	0.8
Sub-contract Exp	468	482	(3.0)	575	(18.6)
Other Expenses	549	415	32.4	452	21.5
Operating Expenses	2,077	1,859	11.7	2,066	0.5
<b>EBITDA</b>	<b>368</b>	<b>368</b>	<b>0.1</b>	<b>362</b>	<b>1.7</b>
EBITDA margin (%)	15.1	16.5		14.9	
Depreciation	31	32	(3.2)	27	13.1
Other income	11	2	601.6	2	344.9
Net finance expense	39	52	(24.6)	35	10.9
<b>Profit before tax</b>	<b>309</b>	<b>286</b>	<b>8.3</b>	<b>302</b>	<b>2.4</b>
Provision for taxes	116	106	9.4	107	8.4
<b>Reported net profit</b>	<b>194</b>	<b>180</b>	<b>7.6</b>	<b>195</b>	<b>(0.9)</b>
As % of net revenues					
COGS	39.9	40.1		39.3	
Employee cost	3.5	3.1		3.5	
Sub-contract Exp	19.1	21.7		23.7	
Other Expenses	22.5	18.6		18.6	
Operating expenses	84.9	83.5		85.1	
Reported net profit	7.9	8.1		8.0	
Tax rate (% of PBT)	37.4	37.0		35.3	

Source: Company

### Revenue grew at 9.8%

Net revenue in Q3FY19 grew at 9.8% yoy to Rs 2.4 bn (as against our estimates of Rs 2.5 bn). The performance was driven by 3% yoy growth in volume while higher growth in average realization was driven by change in mix. Thermal wear segment witnessed strong performance with 23% yoy growth and contributed large part of value growth in the quarter. In terms of products Missy, Bigboss, Regular categories also witnessed growth while Champion and Force NXT witnessed decline. The company adopting corrective measures for distribution for premium segment has impacted growth in Force NXT. It ran pilot project in south through its consultant in order to strengthen distribution and increase penetration. Based on the success of the same, it will adopt the new strategy suggested by the consultant on pan India basis.

In 9MFY19, 42% revenue contributed by Bigboss, 33.7% by regular, 2.4% by Force NXT, 8% by Missy, 4.5% by Force Gowear and 0.4% by Champion. In terms of product segment, Men's innerwear contributed 81% revenue, 8% by women's innerwear, 0.4% by kids, 9% by thermal wear and 1.6% were others. The company is focusing on strengthening its retail presence by increasing presence in modern retail, online, etc. These channels as of now contributed only 3% of revenue, which the company intends to increase to over 10%. The company is also focusing on expanding product range in Missy and Bigboss.

### EBITDA margins ahead of estimates

EBITDA for the quarter was flattish on yoy to Rs 368 mn and was marginally ahead of our estimates, with better than expected EBITDA margin at 15.1% (vs our estimates of 14.3%) led by increased contribution from thermal wear. The margin however declined by 140 bps yoy driven by higher other expenses and employee expenses. The company is launching new TVC and expect more ad expenditure due to upcoming sports event which will result into overshooting of ad budget for FY19E (full year advertisement budget was Rs 860 mn). Besides this, promotion expenses were also higher in the quarter. The company has guided for improvement in FY19E EBITDA margins to 13.5-14% 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 7.6% yoy to Rs 194 mn Vs estimates of Rs 205 mn.

### Maintained revenue growth guidance of 15% in the longer run

DIL has guided for 15% revenue CAGR in FY18-23E with improved EBITDA margin over a longer period. The company also showed confidence in achieving over 12% growth in revenue in FY19E with higher EBITDA margin in the range of 13.5-14%. 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.

### Other highlights

- JV with Pepe jeans for innerwear products is operating as per expectations. The team is on board and manufacturing and sales of the products started. The products have initially been launched in southern market and then would further be launched in Northern and Western market.
- The company is positive on its new variants of its product being launched in Bigboss and Missy and expects the same to grow at faster pace.

- 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 grow at 15% CAGR over a longer period with better margins. 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 marginally revised our EPS estimates for FY19E & FY20E.

The stock is trading at PE of 22.7x and 19.1x on FY19E and FY20E EPS of Rs 12.6 and Rs 14.9, respectively. We maintain our Buy rating on the stock with revised target price of Rs 344 (Vs Rs 390 earlier), valuing at 23x FY20E (vs 25x earlier) based on near term growth challenges due to ongoing business transformation exercise.

### Revision in estimates

Particulars (Rs mn)	Previous		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	10,709	11,988	10346	11611	-3.4	-3.1
EBITDA margin (%)	12.8	13.3	13.4	13.4	60 bps	10 bps
PAT	735	886	716	847	-2.6	-4.4
EPS (Rs)	13	15.6	12.6	14.9	-2.6	-4.4

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>9,256</b>	<b>10,346</b>	<b>11,611</b>
% change yoy	9.2	3.1	11.8	12.2
<b>EBITDA</b>	<b>926</b>	<b>1,239</b>	<b>1,390</b>	<b>1,553</b>
% change yoy	40.8	33.8	12.2	11.8
Depreciation	148	122	125	140
<b>EBIT</b>	<b>778</b>	<b>1,117</b>	<b>1,264</b>	<b>1,413</b>
Other Income	86	20	20	20
Interest	197	179	148	130
<b>Profit Before Tax</b>	<b>667</b>	<b>958</b>	<b>1,136</b>	<b>1,303</b>
% change yoy	63.2	43.5	18.6	14.7
Tax	233	318	420	456
as % of EBT	34.9	33.2	37.0	35.0
<b>PAT</b>	<b>435</b>	<b>640</b>	<b>716</b>	<b>847</b>
% change yoy	64.9	47.3	11.8	18.3
Shares outstanding (mn)	54	57	57	57
<b>EPS (Rs)</b>	<b>8.0</b>	<b>11.3</b>	<b>12.6</b>	<b>14.9</b>
DPS (Rs)	1.0	0.4	0.4	0.5
CEPS (Rs)	10.7	13.4	14.8	17.4
BVPS (Rs)	33.4	62.2	74.4	88.8

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	667	958	1,136	1,303
Depreciation	148	122	125	140
Change in WC	(525)	(950)	(483)	(560)
Other operating activities	(271)	(533)	(420)	(456)
<b>Operating Cash Flow</b>	<b>20</b>	<b>(403)</b>	<b>358</b>	<b>427</b>
Capex	(53)	(79)	(200)	(200)
Free Cash Flow	(33)	(482)	158	227
Change in Investments	(3)	(35)	0	0
<b>Investment cash flow</b>	<b>(56)</b>	<b>(113)</b>	<b>(200)</b>	<b>(200)</b>
Equity Raised	31	1101	0	0
Debt Raised	110	(464)	(200)	(200)
Dividend & others	(111)	(23)	(25)	(30)
<b>CF from Financing</b>	<b>29</b>	<b>615</b>	<b>(225)</b>	<b>(230)</b>
Change in Cash	(7)	98	(67)	(3)
Opening Cash	104	97	195	128
<b>Closing Cash</b>	<b>97</b>	<b>195</b>	<b>128</b>	<b>125</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	4,104	4,921
Net worth	1,809	3,527	4,218	5,035
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>5,722</b>	<b>6,339</b>
Gross block	1,514	1,572	1,772	1,972
Depreciation	766	888	1,013	1,153
Net block	748	684	759	818
Capital work in progress	0	21	21	21
Total fixed assets	749	705	780	840
Investments	3	38	38	38
Inventories	2,049	2,829	3,162	3,549
Sundry debtors	2,265	2,717	3,037	3,408
Cash and equivalents	97	195	128	125
Loans and advances & Others	134	30	35	40
Total current assets	4,545	5,771	6,362	7,122
Sundry creditors and others	1,168	1,412	1,579	1,772
Provisions	154	88	97	107
Total CL & provisions	1,322	1,501	1,676	1,878
Net current assets	3,223	4,271	4,686	5,244
Other net assets	22	218	218	218
<b>Total Assets</b>	<b>3,996</b>	<b>5,231</b>	<b>5,722</b>	<b>6,339</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	13.4	13.4	13.4
EBIT margin (%)	8.7	12.1	12.2	12.2
Net profit margin (%)	4.8	6.9	6.9	7.3
Adjusted EPS growth (%)	17.9	40.7	11.8	18.3
<b>Balance Sheet Ratios</b>				
Receivables (days)	92	107	107	107
Inventory (days)	83	112	112	112
Loans & Advances	5	1	1	1
Payable (days)	48	56	56	56
Cash Conversion Cycle	133	164	164	164
Asset Turnover	2.2	1.8	1.8	1.8
Net Debt/ Equity	1.1	0.4	0.3	0.2
<b>Return Ratios</b>				
RoCE (%)	20.6	24.2	23.1	23.4
RoE (%)	26.6	24.0	18.5	18.3
<b>Valuation Ratios</b>				
P/E (x)	35.7	25.3	22.7	19.1
P/BV (x)	8.6	4.6	3.8	3.2
EV/EBITDA (x)	19.0	14.3	12.7	11.2
EV/Sales (x)	2.0	1.9	1.7	1.5

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

### Definitions of ratings

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

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