Pankaj Kumar
pankajr.kumar@kotak.com
+91 22 6218 6434

Dollar Industries Ltd

Price: Rs.2100 **Recommendation: NOT RATED**

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, Economy range etc. Its brands are also marketed in over 12 countries which includes UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Uzbekistan, Nepal, Bangladesh and Sudan. The company manufactures more than 350 products across all innerwear segments. The company's manufacturing facilities are located at Kolkata, Tirupur, Dindigul, Erode, Delhi and Ludhiana. It has fully integrated facility at Tirupur with presence in spinning, knitting, processing, cutting, stitching and packaging and caters to high end products. Approx 30% of its requirement is met inhouse and balance is through job work which helps it to be asset light. The company is managed by Mr. Vinod Kumar Gupta, Mr. Binay Kumar Gupta, Mr. Krishan Kumar Gupta and Mr. Bajrang Lal Gupta along with a team of professionals.

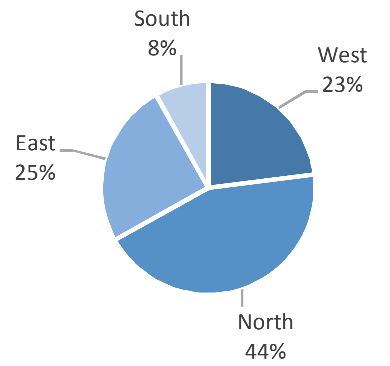
- **Targets to achieve Rs 20 bn revenue in next 7 years:** In last 40 years of its journey, Dollar Industries has been able to achieve Rs 9 bn of revenue. The company has vision to achieve ~Rs 20 bn revenue in the next 7 years on a conservative basis. The company intends to achieve the same through, 1) Unorganized to organized shift, 2) increased volume growth in economy segment, 3) penetration in super premium segment (Force NXT) 4) increased contribution from Women's wear segment (Messi), 5) organic growth of existing brands (Big Boss and Dollar Regular), 6) penetration in new geography and 7) any tie-up or JV with foreign brand in future. As per management the growth would be more value driven and would be higher in terms of bottomline.

- **Increase focus on super premium segment:** The company has largely been present in economy and mid-premium segment through its Dollar Regular (Realization Rs 35/piece) and Big Boss (Realization Rs 62 per piece) brands with 34% and 44% revenue contribution, respectively. The company is now focusing on super premium category with its brand Force NXT (Realization Rs 114/piece) launched in August 2015 and contributed 2% of FY17 sales. It aims to grow this brand focused on aspirational segment to over Rs 1 bn in next 3 years and would go for aggressive advertisement to position it. Further, Missy is expected to do well with women innerwear and leggings products.

- As per the company, there is opportunity to grow by focusing on segments between mid-range product and Super premium products offered by Jockey. Most of the organized players are focusing on filling this gap by launching their products in this segment. Lux is focusing on this through ONN brand, Rupa through 'Macroman M-series' & 'Macrowoman W-Series'. Dollar is doing the same through Force NXT which will help it to tap the opportunity between Jockey and Big Boss. The company intends to achieve the same by focusing on quality, comfort, design, packaging, etc. It would distribute the same through Modern retail, through Shop in Shop, EBOs, MBOs, etc.

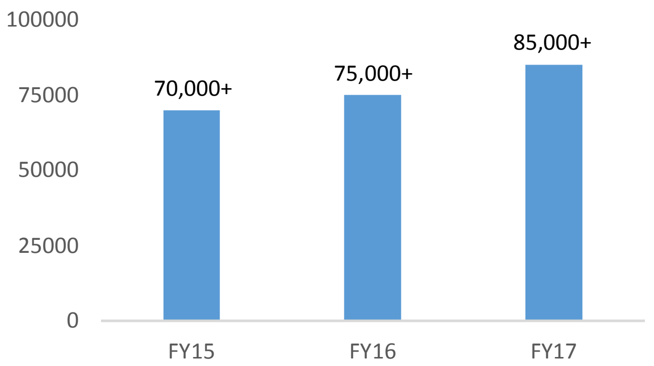
- **Allocate Ad resources towards Force NXT:** Over the years, the company has been spending 8-10% of its revenue on advertisement spend and has been largely spending on building Big Boss brand with Akshay Kumar as brand ambassador. It has completed six-years of association with Akshay Kumar. As per management, Big Boss brand has scaled up and attained decent level. Going forward, the adspend towards Big Boss would be fixed to maintain the brand velocity and it would be allocating more advertisement spend to build Force NXT brand. The advertisement may not include any brand ambassador for promoting the Force NXT brand.
- **Looking for JV with foreign brand:** The company as part of its strategy aims to increase its presence in super premium segment and is open to tie-up with foreign brand for selling those in India. This will help company to grab opportunity in the super premium segment. We believe that any such tie-up/licensing of foreign brands will take time to scale up and contribute meaningfully.
- **No capex, aiming to reduce debtors:** The company does not have any capex plan as it has already done capex by going backward. It has 400 tonnes per month spinning capacity, 300 tonnes per month knitting capacity, 400 tonnes per month Dyeing and bleaching capacity, 1 mn meters per month elastic capacity and 3 lakh pieces per day cutting capacity. The company carries stitching through job work. The backward integration would help it in offering quality product for Force NXT brand. The company was giving higher credit to its distributors to push its products. It believes there is scope to reduce debtors (~85 days) by 10-15 days as its established strong brand in mid and economy range, which gives it room to reduce credit to distributors
- **Wide distribution:** The company is focused on increasing its distribution across region. Presently, it is strong in north, west and east regions which together contribute 92% of its topline. Southern India contributes only 8% to its topline, where it aims to increase presence. In the past three years, it increased its distribution from 750+ distributors and 70000+ MBOs to 850+ distributors and 80000+ MBOs. It is increasing focus from conventional distribution to large format stores, modern retail and ecommerce, specially for selling premium products.

Dollar: Geographical breakup



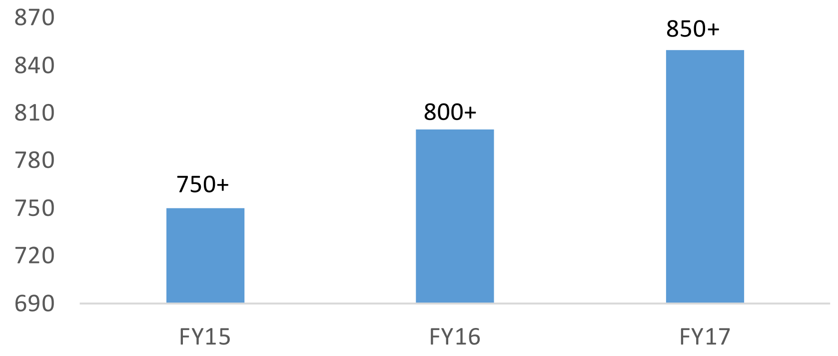
Source: Company

Dollar: Increase in MBOs



Source: Company

Dollar: Distributors count



Source: Company

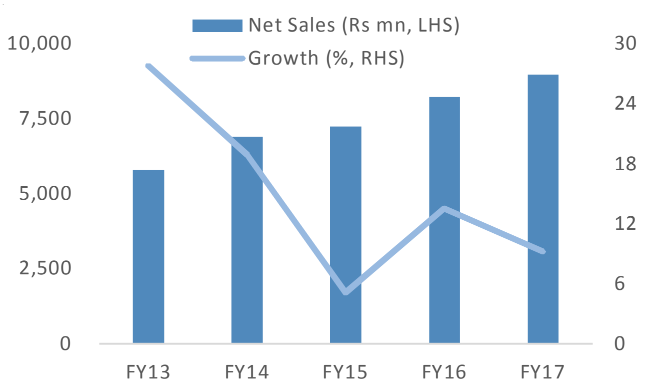
- **Implementation of GST is positive for organized brands:** The management believes that the industry is 50% unorganized and expects shift to happen from unorganized to organize in the longer run after implementation of GST. Presently, there is ~10% gap in terms of manufacturing cost between organized and unorganized in economy segment which the management expects should come down to 5% post GST. Further, the organized players would also get setoff on service tax paid on advertisement expenses (8-10% of revenue), which will give them more room to compete against unorganized players and may positively impact EBITDA margins.

- **Margins to improve in a longer run:** The company targets to improve its margins in the longer run by focusing on premiumization, price increase (presently offering at 3% discount to its peers), rationalization of adspend, decline in raw material prices (Cotton prices to reduce) and benefits from GST. This will result into higher growth in bottomline than its topline in the next three years.

Financials and valuation

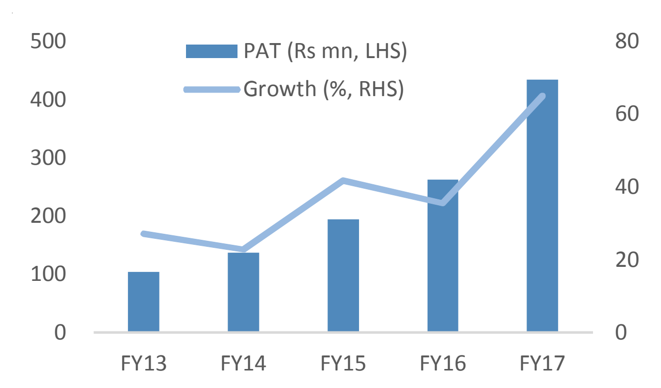
The company has witnessed a revenue and PAT CAGR of 15% and 38% respectively in FY12-17 with improvement in margins due to better product mix and process efficiencies. The gross margins of the company improved by over 1000 bps on improved product mix, increase in prices by reducing undercutting and benefit from backward integration. The company has adopted strategy to grow its business by focusing on growing premium segment. As a result, the EBITDA margins have improved from 5.5% in FY11 to 10.3% in FY17. The company is targeting to double its turnover in next 7 years with improved margins. The company is operating at decent RoCE and RoE of 20.9% and 26.6% respectively. The stock is trading at FY17 P/E and EV/Sales of 52.4x and 2.8x respectively. We do not have any rating on the stock.

Net Sales and Net sales growth trend



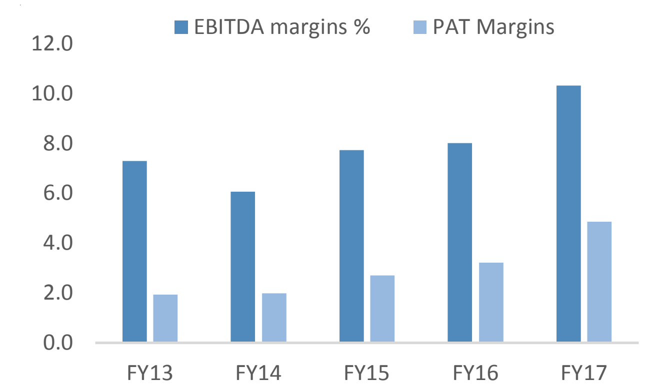
Source: Company

PAT and PAT Growth trend



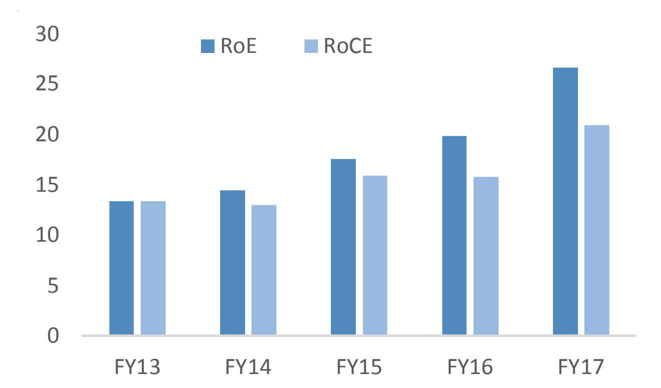
Source: Company

EBITDA and PAT margin trend



Source: Company

RoCE & RoE



Source: Company

Quarterly Highlights

Year to March (INR Mn.)	Q4FY17	Q4FY16	%Chg	Q3FY17	% Chg
Net Revenues	**2,775**	**2,246**	**23.5**	**1,649**	**68.3**
Raw Materials Cost	948	597	58.8	549	72.5
Gross Profit	1,827	1,649	10.8	1,099	66.2
Employee Expenses	65	33	97.5	61	6.6
Other Expenses	1,386	1,406	(1.4)	880	57.5
Operating Expenses	2,400	2,036	17.8	1,491	61.0
EBITDA	**375**	**210**	**78.9**	**158**	**137.4**
EBITDA margin	13.5%	9.3%		9.6%	
Depreciation	53	37	40.7	32	62.9
Other income	44	41	7.8	14	208.5
Net finance expense	57	67	(14.7)	39	45.9
Profit before tax	309	146	111.9	101	206.9
Provision for taxes	125	75	-	40	213.1
Reported net profit	184	70	161.2	61	202.9
As % of net revenues					
COGS	34.2	26.6		33.3	
Employee cost	2.4	1.5		3.7	
Other Expenses	50.0	62.6		53.4	
Operating expenses	86.5	90.7		90.4	
EBITDA	13.5	9.3		9.6	
Reported net profit	6.6	3.1		3.7	
Tax rate (% of PBT)	40.5	51.8		39.8	

Source: Company

Financial Highlights

(Rs mn)	FY13	FY14	FY15	FY16	FY17
Revenue	5795	6889	7241	8217	8973
Growth (%)	27.8	18.9	5.1	13.5	9.2
EBITDA	422	417	559	657	926
EBITDA margin (%)	7.3	6.1	7.7	8.0	10.3
PBT	166	206	308	409	667
PAT	105	137	194	263	435
EPS	14.4	17.7	25.1	34.0	40.1
EPS Growth(%)	27	23	42	36	18
CEPS (Rs)	27	29	40	52	54
Book value (Rs/share)	114	131	155	188	167
Dividend per share (Rs)	1	1	0	0.0	0.0
ROE (%)	13.4	14.5	17.6	19.8	26.6
ROCE (%)	13.4	13.0	15.9	15.8	20.9
Net cash (debt)	(1375)	(1412)	(1715)	(1950)	(1954)
NW Capital (Days)	114	93	99	106	120
P/E (x)	145.6	118.6	83.7	61.8	52.4
P/BV (x)	18.4	16.1	13.5	11.2	12.6
EV/EBITDA (x)	41.8	42.4	32.2	27.7	26.7
EV/Sales (x)	3.0	2.6	2.5	2.2	2.8

Source: Company, Capitaline