

## Result Update

### Stock Details

|                      |   |           |
|----------------------|---|-----------|
| Market cap (Rs mn)   | : | 20088     |
| 52-wk Hi/Lo (Rs)     | : | 515 / 354 |
| Face Value (Rs)      | : | 2         |
| 3M Avg. daily volume | : | 43,071    |
| Shares o/s (m)       | : | 57        |

Source: Bloomberg

### Financial Summary

| Y/E Mar (Rs mn)         | FY18 | FY19E | FY20E |
|-------------------------|------|-------|-------|
| Revenue                 | 9825 | 11046 | 12557 |
| Growth (%)              | 9.5  | 12.4  | 13.7  |
| EBITDA                  | 1239 | 1466  | 1776  |
| EBITDA margin (%)       | 12.6 | 13.3  | 14.1  |
| PAT                     | 640  | 790   | 987   |
| EPS                     | 11.3 | 13.9  | 17.4  |
| EPS Growth (%)          | 41   | 23    | 25    |
| Book value (Rs/share)   | 62.2 | 74    | 89    |
| Dividend per share (Rs) | 1.6  | 2.0   | 2.4   |
| ROE (%)                 | 24.0 | 20.4  | 21.3  |
| ROCE (%)                | 24.2 | 23.9  | 25.7  |
| P/E (x)                 | 32.8 | 26.6  | 21.3  |
| EV/EBITDA (x)           | 18.2 | 14.8  | 12.1  |
| P/BV (x)                | 5.9  | 5.0   | 4.2   |

Source: Kotak Securities - PCG; Company

### Shareholding Pattern (%)

| (%)       | Mar-18 | Dec-17 | Sep-17 |
|-----------|--------|--------|--------|
| Promoters | 56.8   | 56.8   | 54.9   |
| FII       | 2.0    | 2.0    | 2.8    |
| DII       | 7.7    | 7.7    | 7.2    |
| Others    | 33.5   | 33.5   | 35.2   |

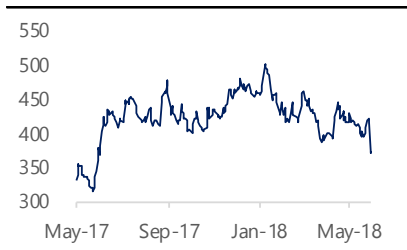
Source: Company

### Price Performance (%)

| (%)               | 1M     | 3M     | 6M     |
|-------------------|--------|--------|--------|
| Dollar Industries | (10.6) | (18.7) | (19.2) |
| Nifty             | (0.0)  | 2.3    | 5.0    |

Source: Bloomberg

### Price chart



Source: Bloomberg

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## DOLLAR INDUSTRIES LTD

PRICE Rs.370

TARGET Rs.505

BUY

DIL Q4FY18 results were below our estimates due to below expected revenue in premium brands, lower exports and higher provisioning of discount and incentives.

### Key Highlights

- DIL reported below expected revenue growth of 4% yoy due to decline in exports, lower revenue growth in Force NXT and Missy and change in accounting treatment of certain heads post Ind AS.
- EBITDA margin at 10.8% was below our estimates of 12.4% due to Rs 80 mn additional provisioning of sales commissions related to prior period, higher job work charges, etc. PAT for the quarter was flattish at Rs 186 mn Vs estimates of Rs 237 mn.
- DIL management has guided for more than 12% growth in revenue in FY19E with improvement in EBITDA margins.

### Valuation & outlook

- The company is positive on its business in the longer run and is focusing on strengthening of its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 12.2% and 9.8% respectively factoring lower growth in volume and realization.
- The stock is trading at PE of 26.6x and 21.3x on FY19E and FY20E revised EPS of Rs 13.9 and 17.4, respectively. We maintain our Buy rating on the stock with revised target price of Rs 505 (Vs Rs 560 earlier).

### Quarterly performance table (standalone)

| Year to March (Rs mn)      | Q4FY18       | Q4FY17       | % Chg         | Q3FY18       | % Chg         |
|----------------------------|--------------|--------------|---------------|--------------|---------------|
| <b>Net Revenues</b>        | <b>2,976</b> | <b>2,863</b> | <b>4.0</b>    | <b>2,327</b> | <b>27.9</b>   |
| Raw Materials Cost         | 1,157        | 948          | 22.1          | 894          | 29.5          |
| <b>Gross Profit</b>        | <b>1,819</b> | <b>1,915</b> | <b>(5.0)</b>  | <b>1,434</b> | <b>26.9</b>   |
| Employee Expenses          | 79           | 68           | 16.2          | 68           | 16.8          |
| Other Expenses             | 1,417        | 1,438        | (1.5)         | 998          | 42.0          |
| Operating Expenses         | 2,654        | 2,455        | 8.1           | 1,960        | 35.4          |
| <b>EBITDA</b>              | <b>322</b>   | <b>408</b>   | <b>(21.0)</b> | <b>368</b>   | <b>(12.3)</b> |
| EBITDA margin              | 10.8%        | 14.3%        |               | 15.8%        |               |
| Depreciation               | 31           | 53           | (41.5)        | 32           | (3.6)         |
| Other income               | 8            | 11           | (30.8)        | 2            | 385.4         |
| Net finance expense        | 35           | 57           | (37.7)        | 52           | (31.7)        |
| <b>Profit before tax</b>   | <b>264</b>   | <b>310</b>   | <b>(14.9)</b> | <b>286</b>   | <b>(7.6)</b>  |
| Provision for taxes        | 77           | 125          | (38.3)        | 106          | (26.8)        |
| <b>Reported net profit</b> | <b>186</b>   | <b>184</b>   | <b>1.1</b>    | <b>180</b>   | <b>3.6</b>    |
| As % of net revenues       |              |              |               |              |               |
| COGS                       | 38.9         | 33.1         |               | 38.4         |               |
| Employee cost              | 2.7          | 2.4          |               | 2.9          |               |
| Other Expenses             | 47.6         | 50.2         |               | 42.9         |               |
| Operating expenses         | 89.2         | 85.7         |               | 84.2         |               |
| Reported net profit        | 6.3          | 6.4          |               | 7.7          |               |
| Tax rate (% of PBT)        | 29.3         | 40.5         |               | 37.0         |               |

Source: Company

### **Revenue grew at 4% after strong 9MFY18**

Net revenue in Q4FY18 grew at sluggish pace of 4% at Rs 2.98 bn (as against our estimates of Rs 3.2 bn), after strong performance in the past three quarters. The company missed its guidance of over Rs 10 bn revenue in FY18. As per the management, this was due to decline in exports, below expected growth in Force NXT and Missy, and change in accounting policy due to Ind AS. Adoption of Ind AS took off ~Rs 180 mn from revenue due to change in accounting treatment of sales commissions, cash discounts, etc. The company achieved 9% yoy growth in volume in FY18. In FY18, the company registered 42.7% yoy growth in Force NXT and 31.1% growth in Missy in value terms as against its target of 80% and 50% growth respectively. The company is focusing on strengthening its retail presence by rolling out EBOs on franchisee basis and increase its presence in large format stores through shop in shop model.

### **EBITDA margins declined by 350 bps yoy**

EBITDA for the quarter declined by 21% yoy to Rs 322 mn with EBITDA margin at 10.8% (down 350 bps yoy) was below our estimates of 12.4%. The company also missed its guidance of 13-13.5% EBITDA margin for FY18 and reported 12.6%. This was on account of Rs 80 mn additional provisioning of sales commissions related to prior period, higher jobwork charges due to increased raw material prices, etc. The company expects margins to improve and aims to achieve 15% EBITDA margins in the next 2-3 years. This will be achieved by its focus towards premiumization, improvement in product mix, etc. PAT for the quarter was flattish at Rs 186 mn Vs estimates of Rs 237 mn.

### **Increase in working capital**

There was increase in working capital due to GST, creating working capital pressure in the channel. In addition, the company built up higher raw material inventory with anticipation of increase in raw material prices in the next one year. This would give it an edge over its peers in coming quarters. The company expects revival in working capital scenario once the impact of GST subsides in the system.

### **Guided for over 12% revenue growth with improved margins**

DIL guided for more than 12% growth in revenue in FY19E with improvement in EBITDA margins. The growth can be higher as the company is working on strengthening of its system through appointment of consultant which would improve efficiency. The company is also expecting additional 8% growth in revenue due to restructuring of its internal systems. The company is also focusing distribution of premium brands and high value brands like Force NXT and Missy through EBOs and shop in shop at large format stores. Further, the benefits from GST would also result in higher growth in economy segment in coming quarters. As per the management, the demand scenario for organized players in the economy segment is expected to improve on introduction of E-way bill which would give edge to organized players over unorganized in terms of competitive advantage.

### **Other highlights**

- JV with Pepe jeans for innerwear products is operating as per expectations. The team is on board and the product is expected to reach market by Q2FY19E.
- The company is positive on its premium end brand Force NXT and expect the segment to grow at over 100% in coming years.

- The company does not require any capex in the 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 is focusing on strengthening of its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY19E & FY20E by 12.2% and 9.8% respectively, factoring lower growth in volume and realization. The stock is trading at PE of 26.6x and 21.3x on FY19E and FY20E revised EPS of Rs 13.9 and 17.4 respectively. We maintain our Buy rating on the stock with revised target price of Rs 505 (Vs Rs 560 earlier), valuing stock at 29x FY20E. At our target price, the stock would be trading at discount to its peers.

### Revision in estimates

| Particulars (Rs mn) | Previous |       | Revised |       | % Chg |       |
|---------------------|----------|-------|---------|-------|-------|-------|
|                     | FY19E    | FY20E | FY19E   | FY20E | FY19E | FY20E |
| Revenue             | 11558    | 13267 | 11046   | 12557 | -4.4  | -5.4  |
| EBITDA margin (%)   | 14.0     | 14.6  | 13.3    | 14.1  | -72   | -41   |
| PAT                 | 899      | 1094  | 790     | 987   | -12.2 | -9.8  |
| EPS (Rs)            | 15.9     | 19.3  | 13.9    | 17.4  | -12.2 | -9.8  |

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 March)         | FY17        | FY18        | FY19E        | FY20E        |
|--------------------------|-------------|-------------|--------------|--------------|
| <b>Revenues</b>          | <b>8973</b> | <b>9825</b> | <b>11046</b> | <b>12557</b> |
| % change yoy             | 9.2         | 9.5         | 12.4         | 13.7         |
| <b>EBITDA</b>            | <b>926</b>  | <b>1239</b> | <b>1466</b>  | <b>1776</b>  |
| % change yoy             | 40.8        | 33.8        | 18.4         | 21.2         |
| Depreciation             | 148         | 122         | 134          | 150          |
| <b>EBIT</b>              | <b>778</b>  | <b>1117</b> | <b>1332</b>  | <b>1627</b>  |
| Other Income             | 86          | 20          | 20           | 20           |
| Interest                 | 197         | 179         | 170          | 170          |
| <b>Profit Before Tax</b> | <b>667</b>  | <b>958</b>  | <b>1182</b>  | <b>1477</b>  |
| % change yoy             | 63.2        | 43.5        | 23.4         | 24.9         |
| Tax                      | 233         | 318         | 392          | 490          |
| as % of EBT              | 34.9        | 33.2        | 33.2         | 33.2         |
| <b>PAT</b>               | <b>435</b>  | <b>640</b>  | <b>790</b>   | <b>987</b>   |
| % change yoy             | 64.9        | 47.3        | 23.4         | 24.9         |
| Shares outstanding (mn)  | 54          | 57          | 57           | 57           |
| EPS (Rs)                 | 8.0         | 11.3        | 13.9         | 17.4         |
| DPS (Rs)                 | 1.0         | 1.6         | 2.0          | 2.4          |
| CEPS(Rs)                 | 10.7        | 13.4        | 16.3         | 20.0         |
| BVPS(Rs)                 | 33.4        | 62.2        | 74.2         | 89.1         |

Source: Company, Kotak Securities – Private Client Research

### Cash Flow Statement (Rs mn)

| (Year-end March)            | FY17        | FY18         | FY19E        | FY20E        |
|-----------------------------|-------------|--------------|--------------|--------------|
| Pre-Tax Profit              | 667         | 958          | 1182         | 1477         |
| Depreciation                | 148         | 122          | 134          | 150          |
| Change in WC                | (525)       | (950)        | 169          | (642)        |
| Other operating activities  | (271)       | (533)        | (392)        | (490)        |
| <b>Operating Cash Flow</b>  | <b>20</b>   | <b>(403)</b> | <b>1093</b>  | <b>495</b>   |
| Capex                       | (53)        | (79)         | (200)        | (200)        |
| Free Cash Flow              | (33)        | (482)        | 893          | 295          |
| 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          | 1168         | 0            | 0            |
| Debt Raised                 | 110         | (464)        | 0            | 0            |
| Dividend & others           | (111)       | (90)         | (111)        | (138)        |
| <b>CF from Financing</b>    | <b>29</b>   | <b>615</b>   | <b>(111)</b> | <b>(138)</b> |
| Change in Cash              | (7)         | 98           | 782          | 157          |
| Opening Cash                | 104         | 97           | 195          | 977          |
| Closing Cash                | 97          | 195          | 977          | 1134         |

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

| (Year-end March)            | FY17         | FY18         | FY19E        | FY20E        |
|-----------------------------|--------------|--------------|--------------|--------------|
| Paid - Up Equity Capital    | 108          | 113          | 113          | 113          |
| Reserves                    | 1,701        | 3,414        | 4,093        | 4,942        |
| Net worth                   | 1,809        | 3,527        | 4,207        | 5,055        |
| Borrowings                  | 2,163        | 1,700        | 1,700        | 1,700        |
| Net Deferred tax            | 24           | 4            | 4            | 4            |
| <b>Total Liabilities</b>    | <b>3,996</b> | <b>5,231</b> | <b>5,911</b> | <b>6,759</b> |
| Gross block                 | 1,514        | 1,572        | 1,772        | 1,972        |
| Depreciation                | 766          | 888          | 1,021        | 1,171        |
| Net block                   | 748          | 684          | 750          | 801          |
| Capital work in progress    | 0            | 21           | 21           | 21           |
| Total fixed assets          | 749          | 705          | 772          | 822          |
| Investments                 | 3            | 38           | 38           | 38           |
| Inventories                 | 2,049        | 2,829        | 2,742        | 3,117        |
| Sundry debtors              | 2,265        | 2,717        | 2,680        | 3,046        |
| Cash and equivalents        | 97           | 195          | 977          | 1,134        |
| Loans and advances & Others | 134          | 30           | 35           | 40           |
| Total current assets        | 4,545        | 5,771        | 6,433        | 7,337        |
| Sundry creditors and others | 1,168        | 1,412        | 1,453        | 1,548        |
| Provisions                  | 154          | 88           | 97           | 107          |
| Total CL & provisions       | 1,322        | 1,501        | 1,549        | 1,655        |
| Net current assets          | 3,223        | 4,271        | 4,884        | 5,682        |
| Other net assets            | 22           | 218          | 218          | 218          |
| <b>Total Assets</b>         | <b>3,996</b> | <b>5,231</b> | <b>5,911</b> | <b>6,759</b> |

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

| (Year-end March)            | FY17 | FY18 | FY19E | FY20E |
|-----------------------------|------|------|-------|-------|
| EBITDA margin (%)           | 10.3 | 12.6 | 13.3  | 14.1  |
| EBIT margin (%)             | 8.7  | 11.4 | 12.1  | 13.0  |
| Net profit margin (%)       | 4.8  | 6.5  | 7.2   | 7.9   |
| Adjusted EPS growth (%)     | 17.9 | 40.7 | 23.4  | 24.9  |
| <b>Balance Sheet Ratios</b> |      |      |       |       |
| Receivables (days)          | 85   | 93   | 89    | 89    |
| Inventory (days)            | 84   | 91   | 91    | 91    |
| Loans & Advances            | 5    | 1    | 1     | 1     |
| Payable (days)              | 54   | 48   | 48    | 45    |
| Cash Conversion Cycle       | 121  | 136  | 132   | 135   |
| Asset Turnover              | 2.2  | 1.9  | 1.9   | 1.9   |
| Net Debt/ Equity            | 1.1  | 0.4  | 0.2   | 0.1   |
| <b>Return Ratios</b>        |      |      |       |       |
| RoCE (%)                    | 20.6 | 24.2 | 23.9  | 25.7  |
| RoE (%)                     | 26.6 | 24.0 | 20.4  | 21.3  |
| <b>Valuation Ratios</b>     |      |      |       |       |
| P/E (x)                     | 46.1 | 32.8 | 26.6  | 21.3  |
| P/BV (x)                    | 11.1 | 5.9  | 5.0   | 4.2   |
| EV/EBITDA (x)               | 23.9 | 18.2 | 14.8  | 12.1  |
| EV/Sales (x)                | 2.5  | 2.3  | 2.0   | 1.7   |

Source: Company, Kotak Securities – Private Client Research

## RATING SCALE

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- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative 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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