

## Result Update

## DOLLAR INDUSTRIES LTD

### Stock Details

Market cap (Rs mn)	:	14534
52-wk Hi/Lo (Rs)	:	434 / 225
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	10,286
Shares o/s (mn)	:	57

Source: Bloomberg

### Financial Summary - Standalone

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	10288	11410	12751
Growth (%)	11.2	10.9	11.7
EBITDA	1357	1515	1698
EBITDA margin (%)	13.2	13.3	13.3
PAT	753	809	923
EPS	13.3	14.3	16.3
EPS Growth (%)	18	7	14
Book value (Rs/share)	74	86	100
Dividend per share (Rs)	1.7	1.8	2.1
ROE (%)	19.5	17.9	17.5
ROCE (%)	21.7	21.1	21.3
P/E (x)	19.5	18.2	15.9
EV/EBITDA (x)	12.2	10.9	9.7
P/BV (x)	3.5	3.0	2.6

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	57.3	57.3	57.0
FII	0.3	0.3	0.4
DII	8.1	8.1	8.1
Others	34.3	34.3	34.5

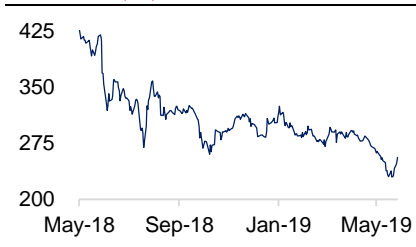
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Dollar Industries	(5.4)	(5.3)	(16.7)
Nifty	1.5	10.5	11.2

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.259

TARGET Rs.293

ADD

DIL Q4FY19 results were below our estimates at operating level due to higher raw material prices and employee expenses.

### Key Highlights

- DIL reported marginally lower than expected revenue growth of 9.4% yoy with EBITDA margin declined 20 bps yoy to 11.6% due higher raw material and employee expenses. In FY19, the company reported 11.2% yoy growth in revenue driven by 6% growth in volumes. Its major brands Dollar Bigboss and Missy continued to perform well in the year and are expected to maintain growth in FY20E as well.
- The company is in process of consolidation. It has completed first phase of pilot project in weaker geographies through its consultant in order to strengthen distribution and increase penetration. In FY20E, it will run similar project in stronger geographies.
- DIL management has maintained its guidance of 15% revenue growth over a longer period with improved margins. The company has not given any guidance for FY20E.

### Quarterly Financial Table (standalone)

Year to March (INR Mn.)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
<b>Net Revenues</b>	<b>2,978</b>	<b>2,722</b>	<b>9.4</b>	<b>2,445</b>	<b>21.8</b>
Raw Materials Cost	1,402	1,157	21.2	975	43.9
Gross Profit	1,576	1,565	0.7	1,471	7.1
Employee Expenses	92	79	15.7	85	7.8
Sub-contract Exp	557	623	(10.5)	468	19.1
Other Expenses	583	541	7.7	549	6.0
Operating Expenses	2,634	2,400	9.8	2,077	26.8
<b>EBITDA</b>	<b>344</b>	<b>322</b>	<b>6.7</b>	<b>368</b>	<b>(6.5)</b>
EBITDA margin	11.6%	11.8%		15.1%	
Depreciation	27	31	(13.1)	31	(13.5)
Other income	7	8	(7.3)	11	(35.8)
Net finance expense	49	35	38.7	39	25.7
Profit before tax	275	264	4.4	309	(10.9)
Provision for taxes	50	77	(35.7)	116	(56.9)
<b>Reported net profit</b>	<b>226</b>	<b>186</b>	<b>21.0</b>	<b>194</b>	<b>16.5</b>
As % of net revenues					
COGS	47.1	42.5		39.9	
Employee cost	3.1	2.9		3.5	
Sub-contract Exp	18.7	22.9		19.1	
Other Expenses	19.6	19.9		22.5	
Operating expenses	88.4	88.2		84.9	
Reported net profit	7.6	6.8		7.9	
Tax rate (% of PBT)	18.1	29.3		37.4	

Source: Company

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## Valuation & outlook

The company is in process of strengthening its internal systems and improving distribution of high value brands. We have cut our EPS estimates for FY20E by 8.7% and introduced estimates for FY21E. The stock is trading at PE of 18.2x and 15.9x on FY20E and FY21E EPS of Rs 14.3 and Rs 16.3, respectively. We downgrade our rating to ADD (Vs Buy) with revised target price of Rs 293 (Vs Rs 344 earlier), valuing the stock at 18x FY21E (vs 23x FY20E earlier), as well roll forward our valuation to FY21E. We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

## Revenue grew at 9.4%, marginally missed estimates

Net revenue in Q4FY19 grew at 9.4% yoy to Rs 2.98 bn (as against our estimates of Rs 3.03 bn). In FY19, the company reported 11.2% yoy growth in revenue driven by 6% growth in volumes. Its major brands Dollar Big Boss and Missy continued to perform well in the year and are expected to maintain growth in FY20E as well. Force Nxt witnessed slower growth of 5% growth in FY19, as the company is in process of strengthening distribution of the brand with wide product range. The company is adopting corrective measures for distribution for premium segment has impacted growth in Force NXT. It ran first phase of pilot project in weaker geographies through its consultant in order to strengthen distribution and increase penetration. In FY20E, it will run similar project in stronger geographies. Based on the success of the same, it will adopt the new strategy suggested by the consultant on pan India basis.

In FY19, 42% revenue contributed by Bigboss, 36% by regular, 2% by Force NXT, 8% by Missy, 4% by Force Gowear and 7% by Ultra. In terms of product segment, Men's innerwear contributed 81% revenue, 10% by women's innerwear and casualwear, 1% by kids, 7% by thermal wear and 1% 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% in future. The company is also focusing on expanding product range in Missy, Force NXT and Bigboss by adding new product ranges in athleisure segment.

## EBITDA margin below our estimates

EBITDA for the quarter grew by 6.7% yoy to Rs 344 mn and was below our estimates of Rs 377 mn, due to lower than expected EBITDA margin at 11.6% (vs our estimates of 12.4%) led by increased raw material price and employee expenses. The raw material prices increased on account of higher cotton yarn prices. The company incurred Rs 1 bn of adspend in FY19 which was higher than its budget of Rs 870 mn due to new TVC for Bigboss and higher adspend in Missy. The company targets to rationalize adspend in FY20E with lower ad budget of Rs 900 mn in FY20E. PAT for the quarter grew by 7.6% yoy to Rs 194 mn as against estimates of Rs 205 mn.

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

DIL has guided for 15% revenue growth with improved EBITDA margin over a longer period. The company expects that the benefits from strengthening of its system through appointment of consultant would take some more time in terms yielding complete results. In the longer run, the company aims to achieve 15% EBITDA margins. This will be achieved by its focus towards premiumization, improvement in product mix, improved distribution model, etc.

### Other highlights

- JV with Pepe jeans for innerwear products is operating well despite delay in roll out of business. The products have initially been launched in southern market and would further be launched in Northern and select Western market in FY20E. The JV company reported Rs 60 mn revenue in FY19 and targets to achieve ~Rs 300 mn in FY20E. The company has invested Rs 70 mn in JV and would further invest Rs 290 mn in the next three years
- The company is positive on its new variants of its products being launched in Bigboss and Missy and expects the same to grow at faster pace.
- The company does not require any major capex in the next two years and would continue to follow asset light strategy by focusing on sourcing from third party vendors.
- Working capital witnessed increase of 15 days in FY19 due to liquidity concerns in the channel which resulted in higher inventory and debtors. The company intends to control debtors based on various majors adopted as part of restructuring of its channel.

### Outlook and valuation

The company is positive on its business in the longer run and aims to grow at 15% revenue 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 cut our EPS estimates for FY20E by 8.7% and introduced estimates for FY21E. The stock is trading at PE of 18.2x and 15.9x on FY20E and FY21E EPS of Rs 14.3 and Rs 16.3, respectively. We downgrade our rating to ADD (Vs Buy) with revised target price of Rs 293 (Vs Rs 344 earlier) valuing the stock at 18x FY21E (vs 23x FY20E earlier) as well roll forward our valuation to FY21E. We have factored in risk related to slowdown in earnings growth due to consolidation in business and increased macroeconomic challenges.

#### Revision in estimates

Particulars (Rs mn)	Previous estimates	Revised estimates	% Change	New
	FY20E	FY20E	FY20E	FY21E
Revenue	11,988	11410	-4.8	12751
EBITDA margin (%)	13.3	13.3	0 bps	13.3
PAT	886	809	-8.7	923
EPS (Rs)	15.6	14.3	-8.7	16.3

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)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>9,256</b>	<b>10,288</b>	<b>11,410</b>	<b>12,751</b>
% change yoy	3.1	11.2	10.9	11.7
<b>EBITDA</b>	<b>1,239</b>	<b>1,357</b>	<b>1,515</b>	<b>1,698</b>
% change yoy	33.8	9.5	11.7	12.0
Depreciation	122	111	119	126
<b>EBIT</b>	<b>1,117</b>	<b>1,246</b>	<b>1,397</b>	<b>1,572</b>
Other Income	20	22	22	22
Interest	179	157	174	174
<b>Profit Before Tax</b>	<b>958</b>	<b>1,110</b>	<b>1,244</b>	<b>1,420</b>
% change yoy	43.5	15.9	12.1	14.1
Tax	318	358	435	497
as % of EBT	33.2	32.2	35.0	35.0
<b>PAT</b>	<b>640</b>	<b>753</b>	<b>809</b>	<b>923</b>
% change yoy	47.3	17.6	7.5	14.1
Shares outstanding (mn)	57	57	57	57
<b>EPS (Rs)</b>	<b>11.3</b>	<b>13.3</b>	<b>14.3</b>	<b>16.3</b>
DPS (Rs)	1.6	1.7	1.8	2.1
CEPS (Rs)	13.4	15.2	16.4	18.5
BVPS (Rs)	62.2	73.6	86.1	100.3

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	958	1,110	1,244	1,420
Depreciation	122	111	119	126
Change in WC	(1221)	(906)	(587)	(699)
Other operating activities	(251)	(442)	(435)	(497)
<b>Operating Cash Flow</b>	<b>(392)</b>	<b>(126)</b>	<b>341</b>	<b>350</b>
Capex	(79)	(128)	(100)	(100)
Free Cash Flow	(471)	(254)	240	250
Change in Investments	(47)	(41)	(90)	-90
<b>Investment cash flow</b>	<b>(126)</b>	<b>(169)</b>	<b>(190)</b>	<b>(190)</b>
Equity Raised	1169	0	0	0
Debt Raised	(464)	412	0	0
Dividend & others	(91)	(103)	(104)	(118)
<b>CF from Financing</b>	<b>615</b>	<b>309</b>	<b>(104)</b>	<b>(118)</b>
Change in Cash	97	14	47	41
Opening Cash	97	194	207	254
<b>Closing Cash</b>	<b>193</b>	<b>207</b>	<b>254</b>	<b>296</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	113	113	113	113
Reserves	3,414	4,063	4,769	5,573
Net worth	3,527	4,177	4,882	5,687
Borrowings	1,700	2,112	2,112	2,112
Other net liability	69	-	-	-
<b>Total Liabilities</b>	<b>5,296</b>	<b>6,289</b>	<b>6,994</b>	<b>7,798</b>
Gross block	1,572	1,701	1,801	1,901
Depreciation	888	998	1,117	1,243
Net block	684	702	683	658
Capital work in progress	21	20	20	20
Total fixed assets	705	722	704	678
Investments	50	91	181	271
Inventories	2,829	3,246	3,600	4,023
Sundry debtors	2,717	3,476	3,856	4,308
Cash and equivalents	194	207	254	296
Loans and advances & Others	236	329	378	434
Total current assets	5,976	7,258	8,087	9,061
Sundry creditors and others	1,412	1,776	1,970	2,202
Provisions	23	21	23	25
Total CL & provisions	1,435	1,797	1,993	2,227
Net current assets	4,541	5,460	6,094	6,834
Other net assets	-	15	15	15
<b>Total Assets</b>	<b>5,296</b>	<b>6,289</b>	<b>6,994</b>	<b>7,798</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	13.4	13.2	13.3	13.3
EBIT margin (%)	12.1	12.1	12.2	12.3
Net profit margin (%)	6.9	7.3	7.1	7.2
Adjusted EPS growth (%)	40.7	17.6	7.5	14.1
<b>Balance Sheet Ratios:</b>				
Receivables (days)	107	123	123	123
Inventory (days)	112	115	115	115
Loans & Advances	9	12	12	12
Payable (days)	56	63	63	63
Cash Conversion Cycle	172	187	188	188
Asset Turnover	1.8	1.6	1.6	1.6
Net Debt/ Equity	0.4	0.5	0.4	0.3
<b>Return Ratios:</b>				
RoCE (%)	24.2	21.7	21.1	21.3
RoE (%)	24.0	19.5	17.9	17.5
<b>Valuation Ratios:</b>				
P/E (x)	22.9	19.5	18.2	15.9
P/BV (x)	4.2	3.5	3.0	2.6
EV/EBITDA (x)	13.1	12.2	10.9	9.7
EV/Sales (x)	1.7	1.6	1.5	1.3

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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