06 July 2017

Dollar Industries

Rating: **Buy**
Target Price: ₹2,646
Share Price: ₹2,100

Product-mix improvement with margin expansion; Buy

Its sharper focus on a better product mix, widening distribution reach together with cost rationalisation augur well for Dollar Industries' earnings growth (a 48% CAGR) in the next two years. Its strong brand positioning, product launches and deeper penetration offer immense scope for growth. With structural drivers at play, we believe that the company finds itself in a sweet spot. We initiate coverage on Dollar Industries, with a Buy rating and a ₹2,646 TP.

Strong brand positioning. The company is one of the fastest growing in the sector. A high level of expenditure on brand promotion and on a strong distribution network has helped create recall value for the brand. Its plan of rationalising costs, including distribution expenses, is expected to lead to a 300bp margin expansion over the next two years.

Better product mix. The focus on improving its product mix, tilting toward the premium segment (69% in FY19), augurs well for margin expansion. Efforts regarding its foray into newer product categories would aid diversification from a pure men's innerwear to a lifestyle brand. Newer launches would further drive growth in coming years. The sharper focus on the premium segment has helped it expand margins and return ratios.

Structural drivers at play. A large unregulated market (50-55% of the ₹240bn market) in innerwear offers immense scope for growth. Changes in consumer preferences and higher disposable incomes have led to greater demand in the brand-named category. Implementation of the GST is expected to accelerate the anticipated shift.

Valuation. At the CMP, the stock trades at a P/E of 24x FY19e earnings. We initiate coverage, with a Buy. We value it at a PE of 30x FY19e (a 35% discount to market leader Page Industries) to arrive at a ₹2,646 target price. **Risks.** Volatile raw material prices, changing customer preferences, cut-throat competition.

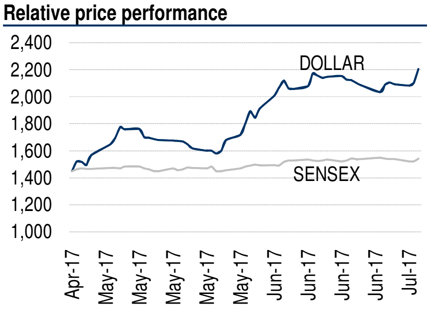
Key financials (YE Mar)	FY15	FY16	FY17	FY18e	FY19e
Sales (₹ m)	7,241	8,217	8,973	10,391	12,270
Net profit (₹ m)	194	264	435	660	956
EPS (₹)	17.9	24.3	40.1	60.9	88.2
Growth (%)	41.7	35.5	64.9	51.9	44.8
PE (x)	117.1	86.4	52.4	34.5	23.8
PBV (x)	18.9	15.7	12.6	9.6	7.2
RoE (%)	17.6	19.8	26.6	31.6	34.4
RoCE (%)	17.8	17.2	22.4	29.1	36.1
Dividend yield (%)	-	0.1	0.2	0.4	0.5
Net debt/equity (x)	1.5	1.5	1.1	0.7	0.4

Source: Company, Anand Rathi Research

Key data	DOLLAR IN
52-week high/low	₹2,470 /₹1,314
Sensex/Nifty	31246 / 9638
1-m average volume	$0.9m
Market cap	₹24bn/$369m
Shares outstanding	11m

Shareholding pattern (%)	Mar '17	Dec '16
Promoters	54.9	54.9
- of which, Pledged	-	-
Free Float	45.1	45.1
- Foreign Institutions	-	-
- Domestic Institutions	-	-
- Public	45.1	45.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Net revenues	7,241	8,217	8,973	10,391	12,270
Revenue growth (%)	5.1	13.5	9.2	15.8	18.1
- Oper. expenses	6,682	7,559	8,047	9,170	10,638
EBIDTA	**559**	**657**	**926**	**1,221**	**1,632**
EBITDA margins (%)	7.7	8.0	10.3	11.8	13.3
- Interest	202	194	197	166	138
- Depreciation	114	137	148	158	168
+ Other income	65	83	86	104	123
- Tax	113	145	233	340	493
Effective tax rate (%)	36.8	35.6	34.9	34.0	34.0
+ Associates / (minorities)	-	-	-	-	-
Adjusted PAT	194	264	435	660	956
+ Extraordinary items	-	-	-	-	-
Reported PAT	194	264	435	660	956
Adj. FDEPS (₹ / sh)	17.9	24.3	40.1	60.9	88.2
Adj. FDEPS growth (%)	41.7	35.5	64.9	51.9	44.8

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Share capital	77	77	108	108	108
Reserves & surplus	1,126	1,377	1,701	2,263	3,076
Net worth	1,204	1,455	1,809	2,372	3,184
Total debt	1,915	2,330	2,050	1,750	1,450
Minority interest	-	-	-	-	-
Def. tax liab. (net)	45	41	23	23	23
Capital employed	**3,165**	**3,826**	**3,882**	**4,145**	**4,658**
Net fixed assets	857	843	749	690	622
Intangible assets					
Investments	-	0	3	3	3
- of which, Liquid	-	-	-	-	-
Working capital	2,217	2,879	3,034	3,398	3,979
Cash	91	104	97	53	53
Capital deployed	**3,165**	**3,826**	**3,882**	**4,145**	**4,658**
W C turn (days)	112	128	123	119	118
Book value (₹ / sh)	111	134	167	219	294

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Adjusted PAT	194	264	435	660	956
+ Non-cash items	130	133	131	158	168
Cash profit	325	396	565	818	1,124
- Incr. / (decr.) in WC	521	662	155	364	581
Operating cash-flow	(196)	(266)	410	454	543
- Capex	215	124	53	100	100
Free-cash-flow	(411)	(389)	357	354	443
- Dividend	-	14	65	98	144
+ Equity raised	-	-	-	-	-
+ Debt raised	403	415	(281)	(300)	(300)
- Investments	(0)	0	3	-	-
- Misc. items	2	(1)	15	(0)	0
Net cash-flow	(10)	13	(7)	(43)	(0)
+ Op. cash & bank bal.	100	91	104	97	53
Cl. Cash & bank bal.	91	104	97	53	53

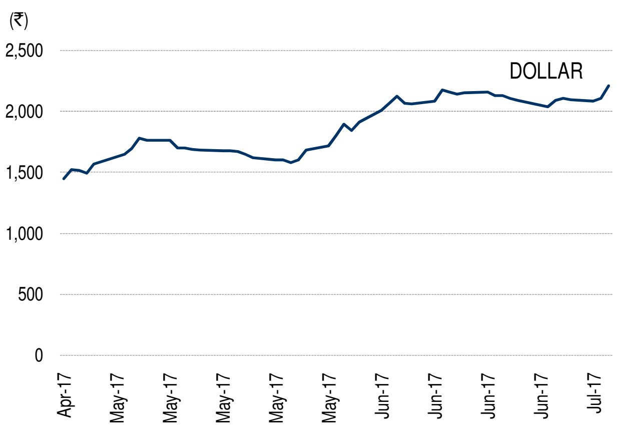
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹2,100

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	117.1	86.4	52.4	34.5	23.8
Cash P/E (x)	73.9	56.8	39.1	27.8	20.3
EV / EBITDA (x)	44.0	38.0	26.7	20.0	14.8
EV / sales (x)	3.4	3.0	2.8	2.4	2.0
P/B (x)	18.9	15.7	12.6	9.6	7.2
RoE (%)	17.6	19.8	26.6	31.6	34.4
RoCE (%)	17.8	17.2	22.4	29.1	36.1
Dividend yield (%)	0.0	0.1	0.2	0.4	0.5
Dividend payout (%)	-	4.4	12.5	12.3	12.5
Net debt / equity (x)	1.5	1.5	1.1	0.7	0.4
Debtor days	92	85	91	85	84
Inventory days	65	99	92	86	85
Payables days	42	48	42	45	45
EBIT / interest (x)	2.5	3.1	4.4	7.0	11.5
Fixed asset T/O (x)	8.4	9.7	12.0	15.0	19.7

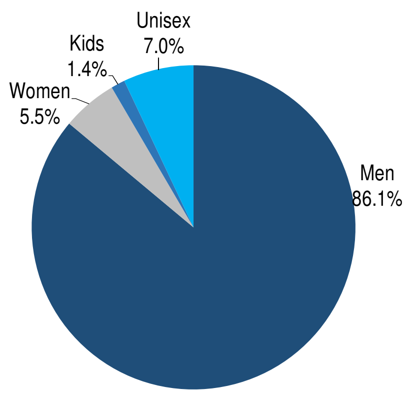
Source: Company, Anand Rathi Research

Fig 5 –Price movement



Source: Bloomberg

Fig 6 – Revenue contribution – FY17



Source: Company, Anand Rathi Research

Strong brand positioning

The Kolkata-based Dollar Industries is one of the fastest-growing lifestyle knitwear and innerwear companies. It has transformed itself from just another regional hosiery operator to one with all-India operations and brand recall.

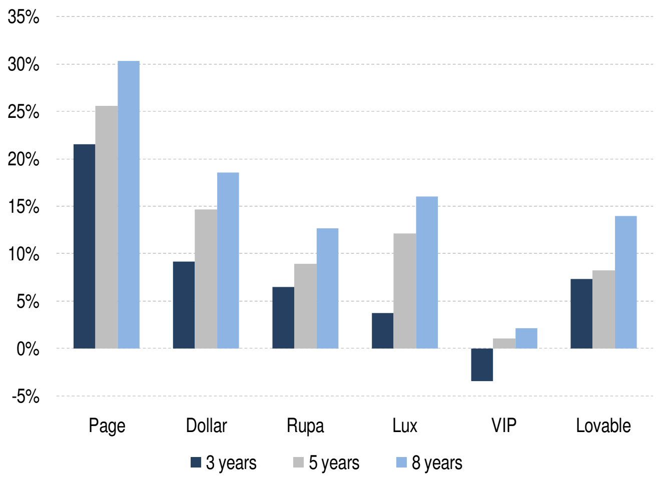
Positioning and product ranges

Dollar's innerwear caters to the economy, middle and premium segments. The economy segment brings 35% to sales, the medium and premium segments the rest. The company has innovated and widened its category spread (from just men's innerwear to women's and children's). It intends to cover a large proportion of an aspirational family's innerwear requirement, strengthening its recall as a one-stop lifestyle brand. A focused operator in innerwear, its major products are vests, briefs, thermals, panties, socks, casuals and kids' wear.

Fig 7 – Product ranges

Source: Company, Anand Rathi Research

Fig 8 – After Page Industries, the strongest revenue CAGR of its peers

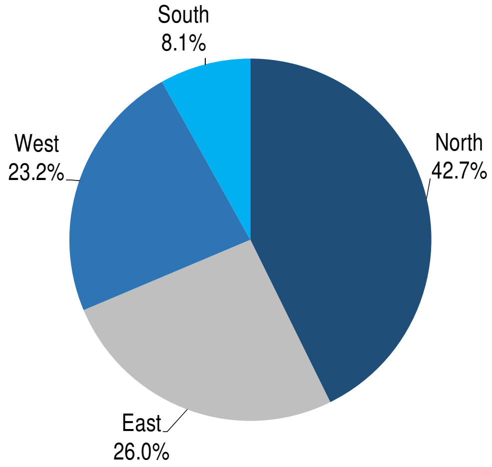


Source: Company, Anand Rathi Research

The company has evolved as an umbrella brand, launching an array of sub-brands such as Dollar Big Boss Premium Innerwear, Missy, Champion, Force Go Wear, Ultra Thermals, Force NXT.

In FY17 the hosiery industry was faced with several challenges due to the de-monetization, followed by escalating cotton prices globally. During the year, Dollar, through its brands, made inroads into newer territories and consolidated its position in existing hosiery markets in India and abroad. It has wide-spread operations across India, with the northern region contributing the most to revenue, followed by the eastern, western and southern regions.

Fig 9 –The North contributes the most, followed by the East and West (FY17)



Source: Company

Wide distribution network

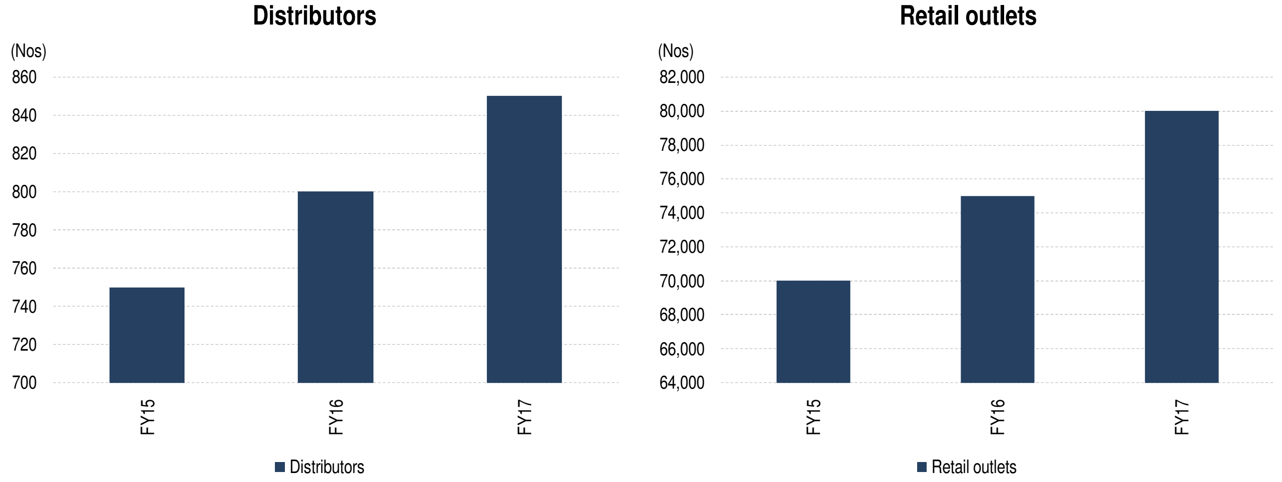
Its knitwear is sold through MBOs, department stores and online sites. Most of its products are sold in India through MBOs. Some industry surveys suggest that around 74% of customers prefer to buy through MBOs due to easy accessibility and diversity of options. One can choose from different brands, price ranges, designs, etc.

The brand's own showrooms (EBOs) are preferred by consumers who are brand conscious or have clung to a particular brand suiting their needs. Though online retailing is gaining momentum, return policies however of innerwear in the online marketplace still poses a problem; because of this, consumers do not opt much for online purchasing. This evolution of the new-age consumer is key to growth of the Indian innerwear market.

The company has focussed on widening its reach. The number of its distributors has risen from 550 in FY10 to 850+ in FY17. The company has increased the number of its MBOs from 30,000 in FY11 to 80,000+ in FY17, and intends to increase this further in the next two years.

To boost growth further, it is eyeing 50 EBOs by end-2020 across major cities in India, operated on a franchise model.

Fig 10 – Wide distributor and retailer networks

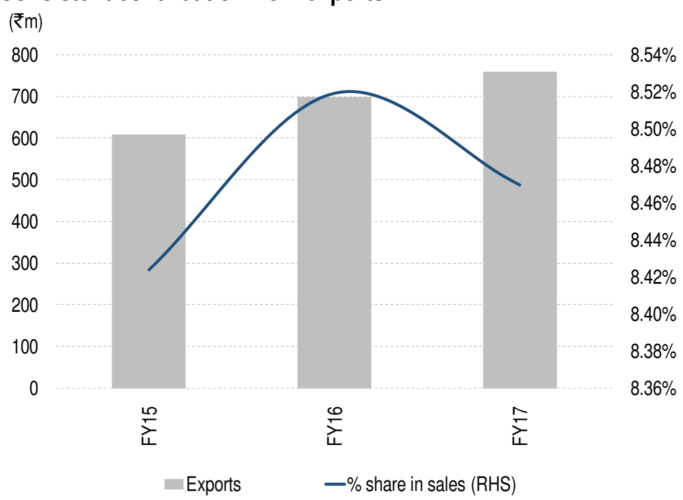


Source: Company *Source: Company*

Exports contributing consistently to sales

Besides selling in India, Dollar Industries exports to the UAE, Oman, Jordan, Qatar, Kuwait, Bahrain, Yemen, Iraq, Nepal and Sudan. It has achieved the status of an "export house" from the government of India. The proportion of exports to sales has been a constant ~8-9% in the last three years. Its export revenue in FY17 was ₹760m.

Fig11 – Consistent contribution from exports



Source: Company

Highest expenditure on advertising and brand promotion

The industry faces cut-throat competition and companies have promoted sales vigorously in order to differentiate their products. This is more so on account of the operations of various international brands in the Indian market. Of its peers, the company is one of the highest spenders on advertising, at ~10% of sales, compared to Page, Rupa and Lux (respectively ~4%, 8% and 6%). Its effort to promote its products through diverse media has helped it penetrate the broad mass of the country's population. Television (55%) and print (20%) account for the largest share of its expenditure on the mass media of communications.

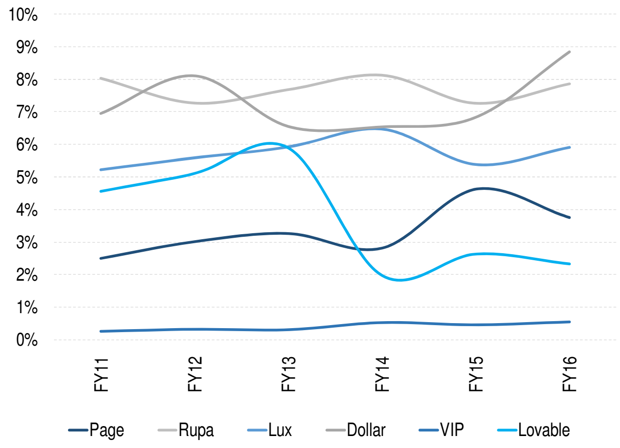
Fig 12 – After Rupa, Dollar spends the second highest on advertising

(₹ m)	FY11	FY12	FY13	FY14	FY15	FY16
Rupa	522	516	636	734	706	797
Dollar	276	368	380	451	495	727
Page	123	206	286	335	714	670
Lux	272	306	410	563	489	556
Lovable	46	68	89	32	46	46
VIP	6	7	8	14	12	11

Source: Annual reports of companies, Anand Rathi Research

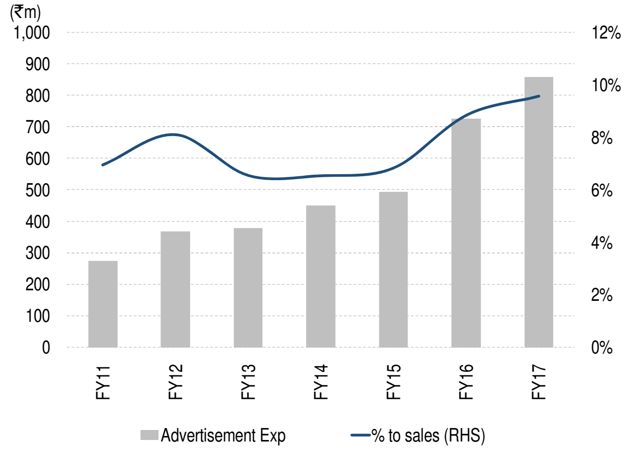
In 2010 the company roped in Akshay Kumar as its brand ambassador. Prior to him, Salman Khan was its brand ambassador, from 2006 to 2008.

Fig 13 – Among peers, the highest spending on advertising



Source: Company, Anand Rathi Research

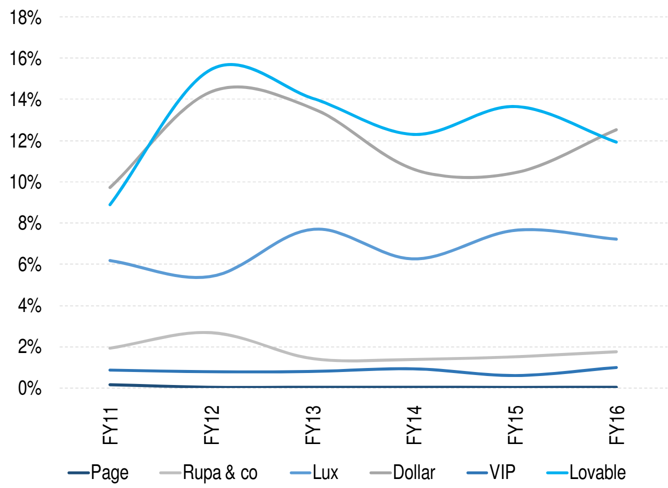
Fig 14 – Constant focus on brand promotion



Source: Company, Anand Rathi Research

Commissions, discounts and incentives to distributors form a significant chunk of sales-promotion expenses. Here again, Dollar Industries offers some of the highest commissions to distributors. Ahead, its strategy is to rationalise its expenses on brand promotion and commissions as it believes that the brand has achieved the scale where it can negotiate better terms with its distributors. Such expenditure is expected to grow slower than revenue growth. We believe that company's focus on rationalising incentives and discounts would aid margin expansion over the next two years.

Fig 15 – Offering the highest incentives and discounts to distributors



Source: Annual reports of companies, Anand Rathi Research

Earlier, innerwear purchases were limited to local stores, and there was not much emphasis on advertising. On the entrance of international brands and an increase in brand consciousness, the sector has experienced a sharper focus on brand promotion.

Fig 16 – High degree of competition among peers in different categories

Product Range	Dollar	Rupa	Lux	Amul	VIP
Mens					
Economy	Comfort, Lehar, Commando	Rupa Jon	Lux Venus	Amul Gold, Comfy	VIP Supreme
Price (₹)	60—110	60—99	55—100	55—99	60—90
Medium	Big Boss, Club, Myme, Force Go	Frontline, Euro	Cozi, Bigshot, Classic, Cozi GLO	Amul Macho	VIP Bonus, Nawab
Price (₹)	82—144	93—149	80—150	90—150	99—159
Premium	Force NXT	Macro man	ONN		VIP Frenchie
Price (₹)	136—209	140—216	145—325		
Super Premium		FCUK			
Price (₹)		450—600			
Women					
Medium	Dollar Missy (leggings, panties)	Rupa Softline (leggings, bras, panties)	Lux Lyra, Karishma, Touch		
Price (₹)	75-399	74-380	80-490		
Premium		Macro woman			
Price (₹)		220-600			
Kids					
Kids' wear	Champion Kids	Rupa Frontline Kidz			VIP Junior, Frenchie Junior

Source: Anand Rathi Research

A better product-mix

Emphasis on improving the product mix

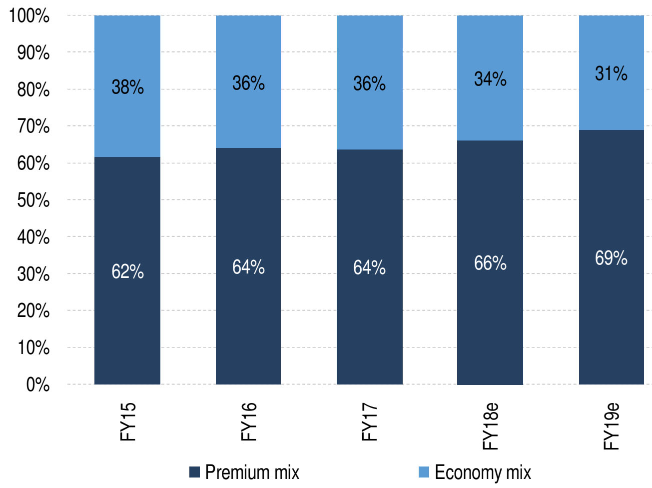
Intending to capture the higher end of the market, the company has been focussing on improving the proportion of its premium category in its sales mix. The efforts have yielded results, with the sales mix changing in favour of the premium category, from 42% in FY12 to 65% in FY17. The shifting focus to the premium categories has helped it to expand margins and return ratios. The economy segment (~33-34% of sales) fetches realisations of ₹30-35 per piece, while the medium category 'Big Boss' (43-44% of sales) fetches ~₹55-65, improving product mix.

Foray into premium men's innerwear

In FY16 Dollar Industries launched a new premium category for men 'Force NXT'. The brand is aimed at youth and the trendy urban male. We believe the brand has the potential to contribute significantly to revenue in coming years. Product quality and features are much better. The company has deliberately kept this brand positioning separate from its "Big Boss" brand and is projecting it as a premium and trendy brand, focusing on the niche segment of the market.

Realisations, at ₹110-115 per piece, are much better than average realisations of ~₹50 per piece on a company basis. The brand registered strong growth in FY17, with revenues ballooning 3x from FY16. We expect the contribution from this brand to increase to ₹499m in FY19 (~3.6% of sales).

Fig 17– Increasing share of premium segment



Source: Company, Anand Rathi Research

The company's focus on improving its product mix continues by increasing revenues from new launches like Force NXT, which command higher realisations than the present ranges. We believe that the higher proportion of the premium category in the sales mix would aid margin expansion.

Widening product basket

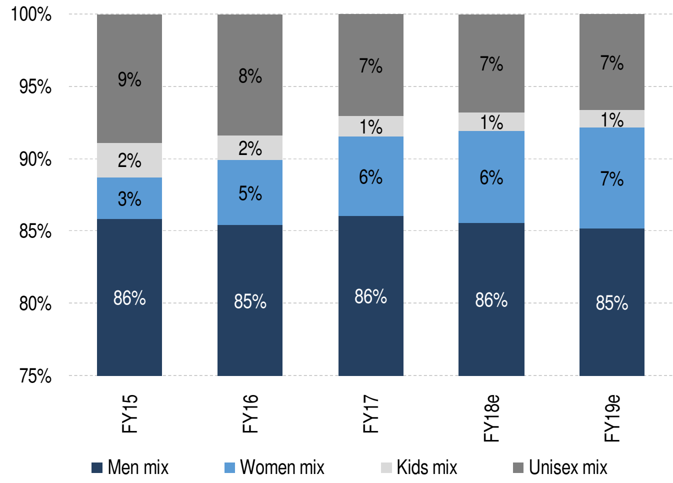
As part of its strategy, the company has targeted the growing needs (innerwear and outerwear) of the youth. Under its brand pyramid, Dollar Industries offers a wide range of products in the economy and premium segments. Even as its products are being positioned as premium, it has continued to cater to mass users, balancing both objectives: more volumes and higher realisations. Over the years, however, the share of the economy segment in overall sales has shrunk because of the company's concerted efforts.

Presence in women innerwear and outerwear

Aiming to diversify its range from just men's innerwear, the company is focusing on the fast-growing women's innerwear and outerwear category. It entered the women's category aiming to capture this growing segment. The ~₹145bn women's intimate-wear market has clocked a 16% CAGR over 2010-15 and is expected to provide a huge market opportunity.

The company sells women's innerwear, leggings, outerwear and slacks under the brand 'Dollar Missy'. Realisations are ~₹75-80 a piece. The category has registered a robust 51% CAGR over FY15-17, though on a low base. The share of the women's category in the sales mix has increased from ~2.9% in FY15 to ~5.5% in FY17. We expect the segment to contribute ₹804m (7% of sales) in FY19, registering a 33% CAGR over FY17-19.

Fig 18 – Increasing share of premium and women's segments in product mix



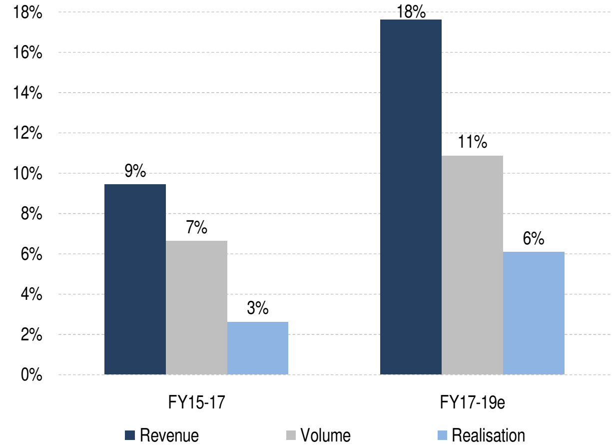
Source: Company, Anand Rathi Research

With the fast-changing customer requirements, the company has focused on continuous improvement in its product basket. And, diversifying from innerwear, the company has made a foray into new emerging sub-segments in outerwear such as leggings (for women) and thermals. It is diversifying its product range and will introduce further variants in sleep-wear, lounge-wear, active-wear and sports-wear.

The company also has operations in the kids segment, thermals and socks but these categories have registered slower or negative growth over FY15-17. We expect the kids segment to clock a 9% CAGR and regulars (thermals and socks) to register a 15% CAGR over the next two years.

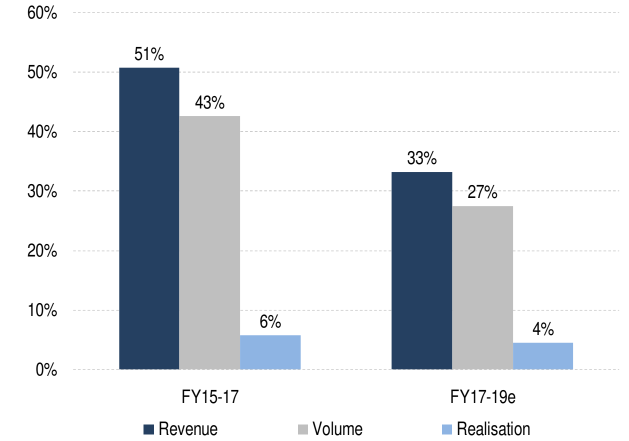
We believe that company's focus on improving its overall sales mix augurs well for margin expansion. The critical factor would be product acceptability by consumers, who are turning increasingly brand conscious with several alternatives available at similar prices. With a view to delivering quality products, the company's backward-integrated facilities provide assurance regarding parameters for quality.

Fig 19 – Men's segment to clock 18% CAGR over FY17-19..



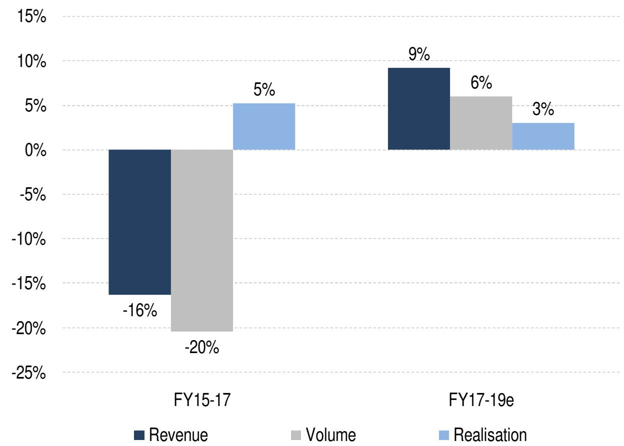
Source: Company, Anand Rathi Research

Fig 20 – ...while women's segment to register 33% CAGR



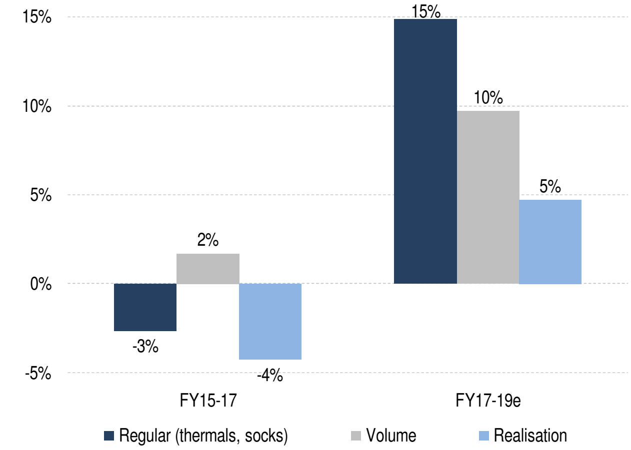
Source: Company, Anand Rathi Research

Fig 21 – Kidswear expected at a 9% CAGR



Source: Company, Anand Rathi Research

Fig 22 – Regulars to register a 15% CAGR



Source: Company, Anand Rathi Research

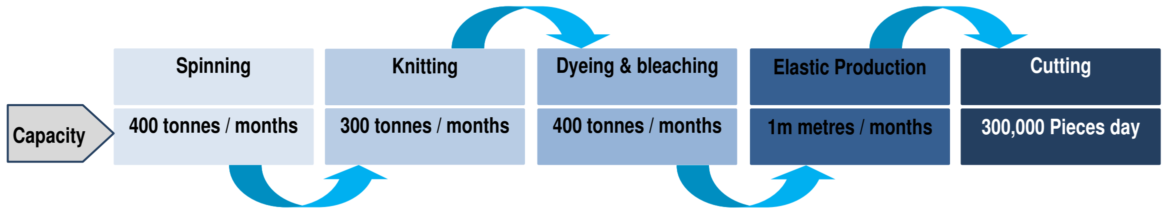
The company is scouting for a joint venture or licensing opportunity with international brands in order to improve its product offerings.

Backward integrated operations-balanced use of own manufacturing and job work

In a market where shape, fit and brand are the most dominant factors while deciding purchases, the company has a flexible manufacturing and job-working approach. Design, fabric-thread selection and cutting are done in-house; stitching is outsourced to more than 800 units, with complete quality management.

The company has invested about ₹120m in an effluent-treatment plant with zero liquid discharge. Manufacturing is done at Tirupur, Kolkata, Delhi and Ludhiana.

Fig 23 – Backward-integrated operations



Source: Company

The company's wind-power plants (5 MW) at four locations in Tamil Nadu helps save ~₹20m in its power bill, annually.

Backward-integrated operations aid in effective management of its own manufacturing and job work. The company maintains complete supervision of the job-work process to ensure the quality of its products.

Since it has flexible manufacturing and job work, no major capex is planned for the coming two years besides normal maintenance capex. The company enjoys similar asset turns compared to its peers.

Fig 24 – High asset turns among industry peers (on gross block)

(x)	FY12	FY13	FY14	FY15	FY16	FY17
Page	4.5	4.7	4.9	5.0	5.5	5.7
Rupa & Co	4.9	4.7	4.7	4.9	4.4	4.2
Lux	17.4	16.3	16.6	16.8	16.1	6.9
Dollar	6.1	7.1	7.9	5.4	5.6	5.9
VIP	2.3	2.6	2.5	2.5	1.9	2.6

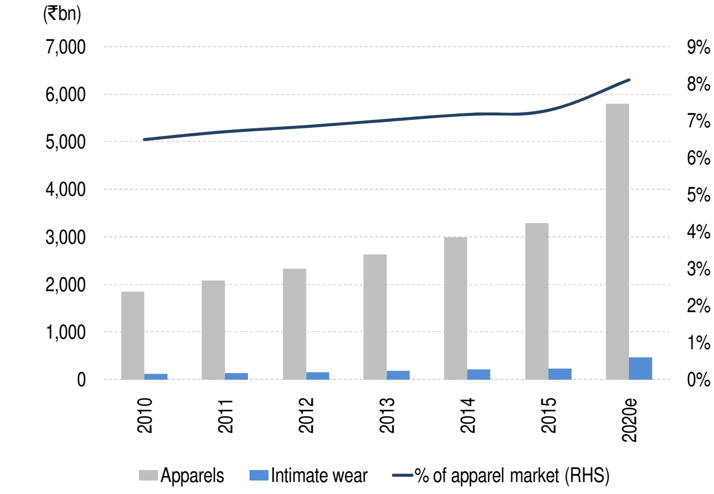
Source: Anand Rathi Research

Structural drivers at play

Growing market for innerwear in India

Industry estimates put the overall market for innerwear products at ~₹240bn (2015), constituting ~7.3% of the apparel market. The market has registered a 15% CAGR over 2010-15. The women's segment dominates, making up ~60% (₹145bn); the men's segment takes the next place (35%, ~₹85bn); the kids' segment trails with ~₹9bn. Industry estimates the market to clock a 14% CAGR over 2015-20.

Fig 25 – Rising share of innerwear in the apparel market



Source: Industry reports, Anand Rathi Research

Fig 26 – Innerwear market in India

	2010	2015	2020e	CAGR (10-15)	CAGR (15-20e)
Apparel market (₹ bn)	1,850	3,300	5,800	12	12
Innerwear market (₹ bn)	120	240	470	15	14
% of apparel market	6.5	7.3	8.1		
Women (₹ bn)	70	145	280	16	14
% share	58	60	60		
Men (₹bn)	43	85	165	15	14
% share	36	35	35		
Kids (₹bn)	4	9	23	18	21
% share	3	4	5		
Organised (%)		45-50			
Unorganised (%)		50-55			

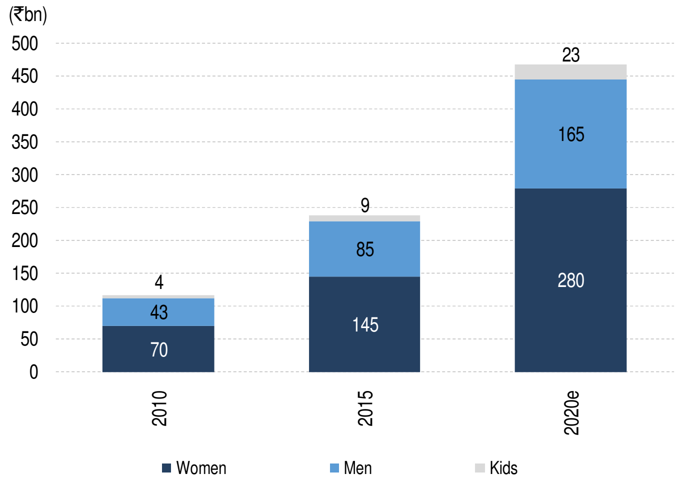
Source: Intimate Apparel Association

The industry estimates the organised operations at ~45-50% of the overall innerwear market; this indicates the immense growth opportunities for brand-named companies.

Implementation of GST to be benefit brand-named operators

The GST will be the key catalyst for the industry. It will reduce the competitive advantage enjoyed by the unorganised sector, providing more room to brand-named operators, and accelerate the shift from the unorganised sector to the formal one. The market is gradually moving toward brand-named national operators and the GST is expected to speed up that process.

Fig 27– Growing market for innerwear



Source: Intimate Apparel Association

The innerwear market is fragmented in India, dominated by small-scale units supplying to local neighbourhood markets. Larger domestic operators enjoy scale advantage and have all-India operations. Their products generally cater to the economy and medium categories.

Fig 28 – List of top domestic brand-named operators and their revenue (₹ m)

Company	FY16
Page	17,956
Rupa	10,148
Lux	9,409
Dollar	8,217
Amul (JG Hosiery)	9,558
Kothari Hosiery	1,334
VIP Clothing (Maxwell)	1,928
Dixcy Textiles	6,131
TT Ltd.	1,037
Dora (HP Textiles)	261
Lovable	1,968
Bodycare Creations	1,276
Gokaldas Intimatewear (Enamor)	1,330
Total	**70,553**

Source: Company, MCA, Anand Rathi Research

Many domestic brands have entered into manufacturing, marketing or brand tie-ups with international brands. These arrangements aid domestic companies in acquiring technical know how and provide them insights on latest global fashion trends. Page Industries has a licensing arrangement with Jockey International. After this, other companies adopted this strategy to cater to the premium segment. Some examples are VIP Clothing (Maxwell) in a licensing arrangement with a French brand, Eminence; Sri SR Mills, licensee of Playboy Men's innerwear; Rupa & Co's marketing agreement with French Connection (UK) and Fruit of the Loom (US).

Further, several international brands (such as Marks & Spencer and Triumph) have invested in India to tap the growing innerwear market. These source key raw materials such as fabric, elastic, etc., and develop products in India.

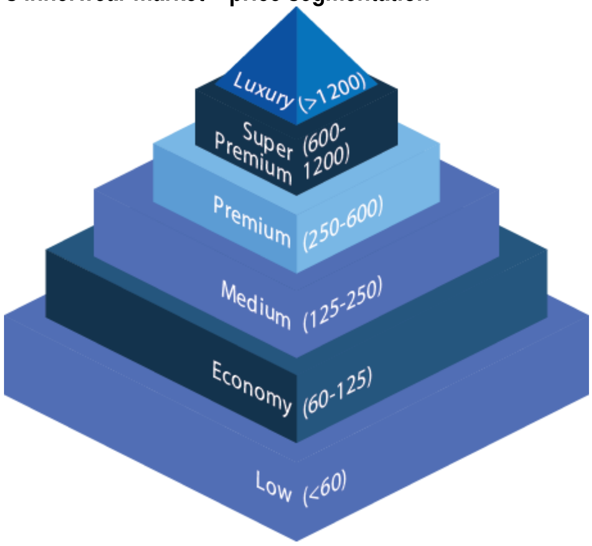
Fig 29 – Top international brand-named operators

Company	Price range (₹)	Category
Emporio Armani	Starts at 1,200	Luxury
Calvin Klein	Starts at 450	Premium, luxury
Levi's	175-390	Medium, premium
Jockey	Starts at 150	Medium, premium,
Hanes	Starts at 99	Medium, premium
Marks & Spencer	599-1299	Premium
Enamor (Women)	Starts at 224	Premium, super premium, luxury
Zivame (Women)	Starts at 359	Super premium, luxury

Source: Company, Anand Rathi Research

In men's innerwear, major domestic brands (Dollar, Rupa, Amul, VIP, Lux) fall in the low to medium category; international brands (Armani, CK, GANT, FCUK, Jockey) are in the premium and luxury categories.

Fig 30 – Men's innerwear market – price segmentation

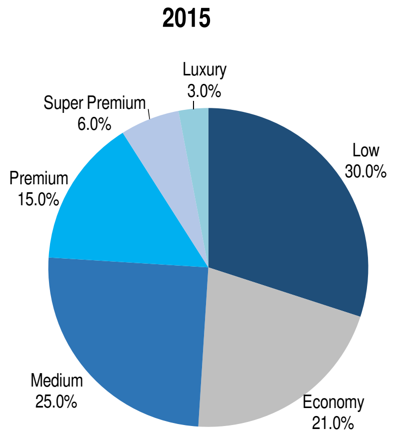


Source: Intimate Apparel Association

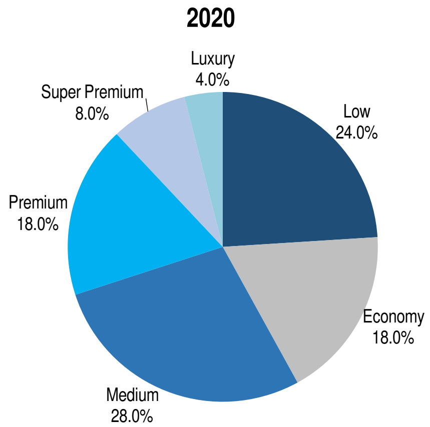
Favourable demographics driving shift to brand names

A huge youthful population, higher disposable incomes, a rising proportion of working women and increasing aspiration levels are some of the key factors leading to a shift from the non-brand-named sector to a brand-named one. However, despite these drivers, the economy segment largely dominates the innerwear market in India, catering to need-based buying.

Fig 31 – Shift happening from low and economy ranges to medium and premium ranges



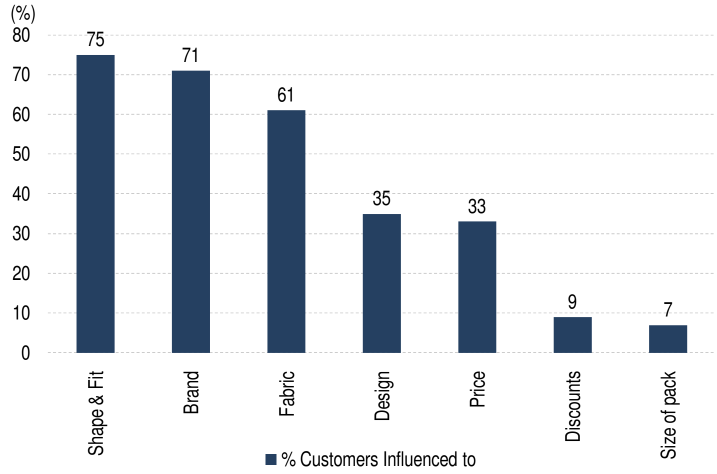
Source: Intimate Apparel Association



Source: Intimate Apparel Association

The innerwear segment is fast becoming an aspiration & lifestyle category, (from essentials/hidden category), with a rising number of consumers allocating a greater wallet share to this segment. As international brands have made a foray into the innerwear market, the trend has gained momentum. All these factors have led to a shift from non-brand-name to brand-name categories. However, the ultimate expenditure in this segment depends on the plumpness of customers' wallets. Nevertheless, industry surveys show that comfort, shape, design and fit play important roles in buying decisions.

Fig 32 – Parameters for buying decisions

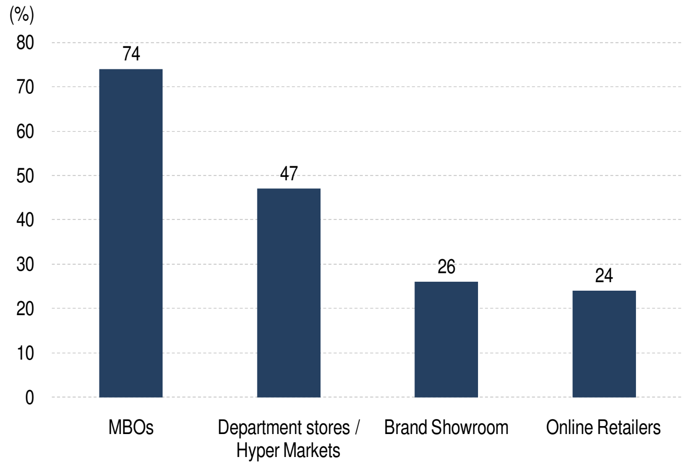


Source: Industry reports

Brand promotion and distribution – keys to success

MBOs are the preferred channel of purchasing such products, but retail formats such as EBOs, department stores and LFSs are gaining traction with the advent of premium brands. Further, buying frequency is need-based and aspiration-based. Industry surveys suggest that ~90% of the consumers shop for this category more than twice a year, purchasing at least two pairs.

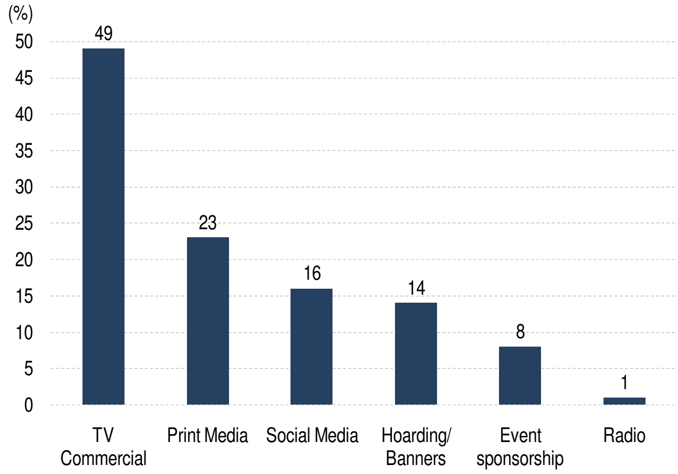
Fig 33 – MBOs are the preferred mode for shoppers of innerwear



Source: Industry reports

Ahead, heavy investment in brand building, product innovation, distribution channels, retail reach and manufacturing relationships are expected to benefit the brand-named segment.

Fig 34 – Share of media in innerwear expenditure on advertising



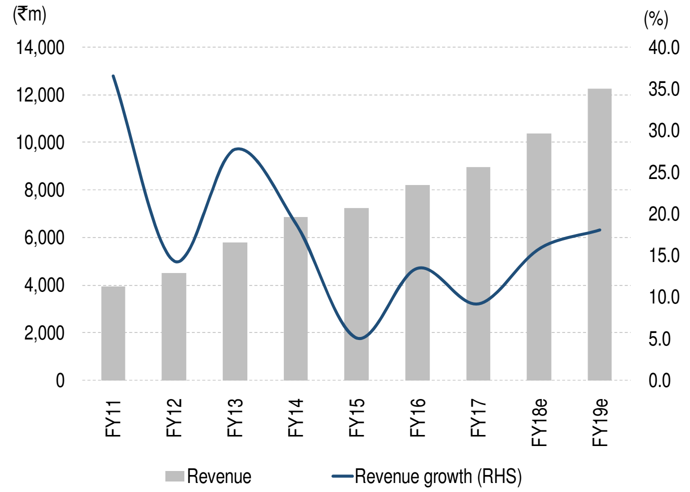
Source: Industry reports

Financials

Revenue expected to clock a 17% CAGR

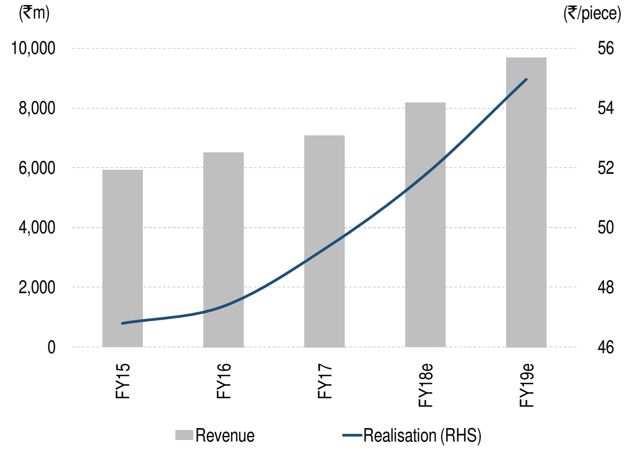
We believe that company's focus on improving the percentage of its premium category would lead to revenue growth in the next two years. The premium and medium categories now bring 64% to revenue, expected to rise to 69% in FY19

Fig 35 – Revenue to clock a 17% CAGR over FY17-19



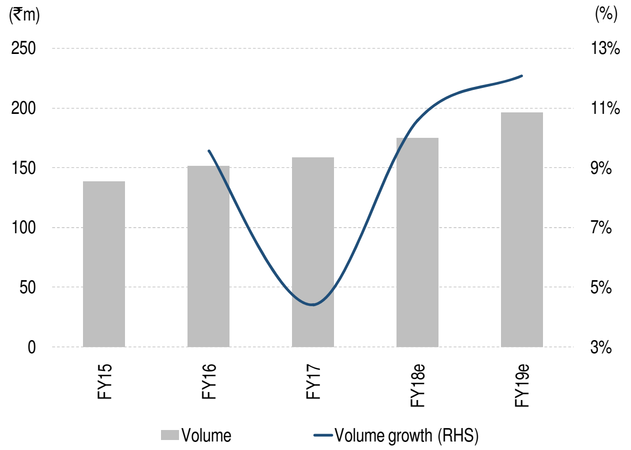
Source: Company, Anand Rathi Research

Fig 36 – Higher premium share to improve realisations



Source: Company, Anand Rathi Research

Fig 37 – Volumes to register an 11% CAGR over FY17-19

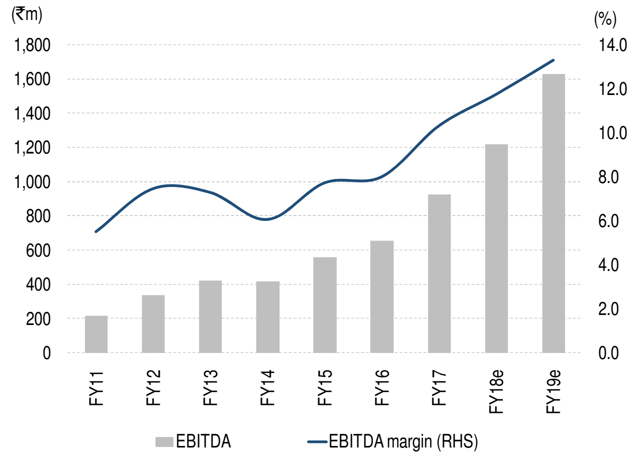


Source: Company, Anand Rathi Research

Product-mix improvement, cost efficiencies to lead margin expansion

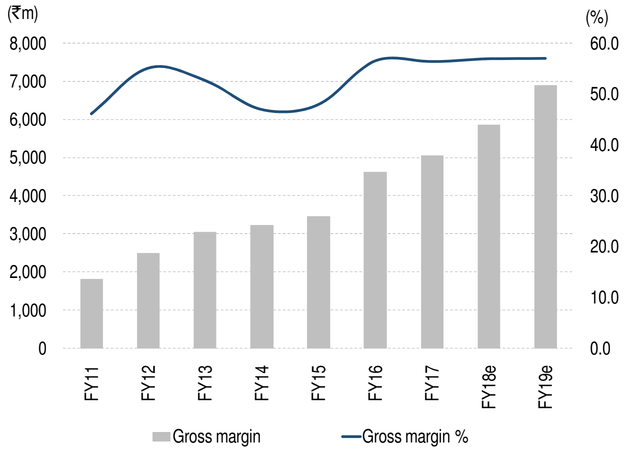
The company's focus on the higher-value-added category is expected to lead to further changes in the product mix toward the premium category where realisations are higher. Further, efforts to rationalise incentives to distributors and some sort of cap on brand-promotion spend would lead to cost savings. We believe that these efforts would help the company expand margins in the next two years.

Fig 38 – Cost reduction and a better product mix to boost margins



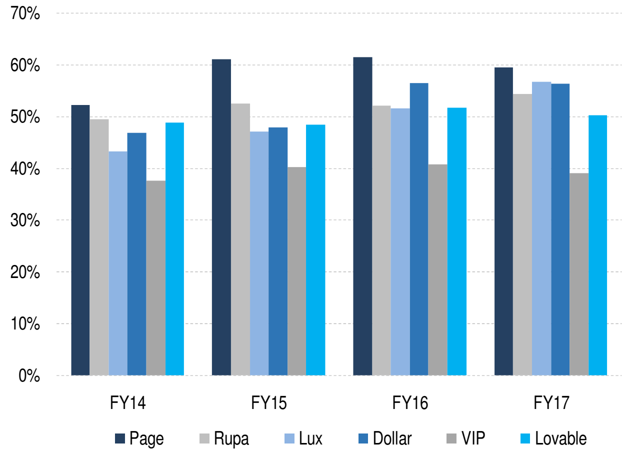
Source: Company, Anand Rathi Research

Fig 39 – Gross margin to expand 64bps



Source: Company, Anand Rathi Research

Fig 40 – Scope for improvement in gross margin

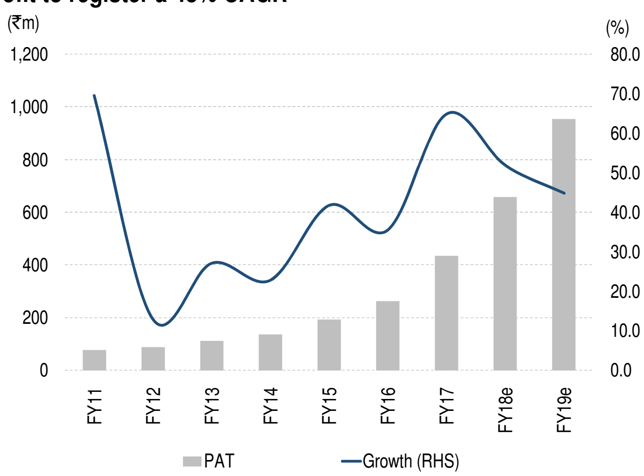


Source: Company, Anand Rathi Research

Profitability to be aided by lower interest

A better product mix and higher margins would significantly aid profit growth. Of its peer set, the company has one of the highest leverages; management is keen on reducing this. We believe that higher free-cash-flows in the next two years would help reduce debt, which would imply lower interest expenses and greater profitability.

Fig 41– Profit to register a 48% CAGR

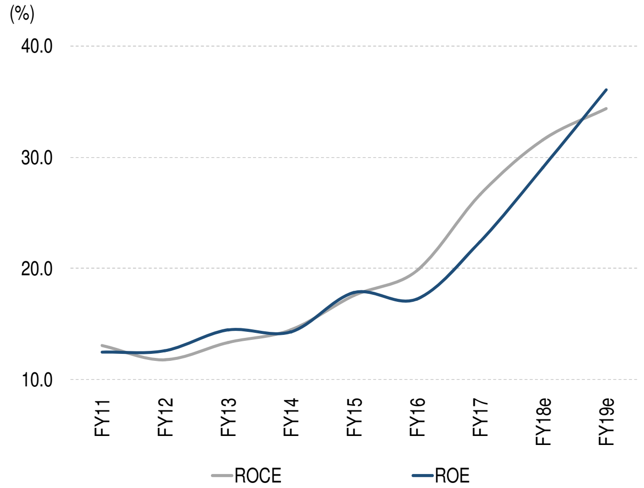


Source: Company, Anand Rathi Research

Better return ratios

On account of its asset-light business model and higher margins and profitability, the company's return ratios are trending upward. We believe that strong free-cash-flow generation, together with better working-capital management, would offer further scope for expanded return ratios. We expect the RoE and RoCE in FY19 to improve to, respectively, 34.4% and 36.1%.

Fig 42 – Return ratios set to improve further

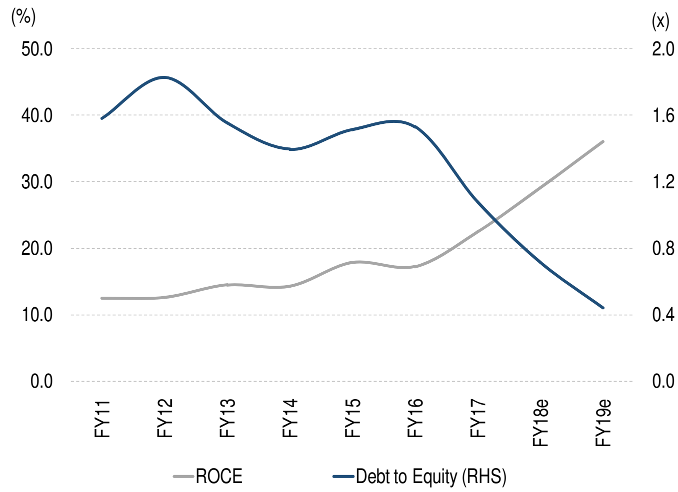


Source: Company, Anand Rathi Research

Better performance to reduce leverage

Greater profitability together with better working-capital management and lower capex are expected to lead to debt reduction of ₹600m in the next two years, leading to lower leverage.

Fig 43 – Better performance to reduce leverage



Source: Company, Anand Rathi Research

Fig 44 – Income statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Net revenues	7,241	8,217	8,973	10,391	12,270
Other Op revenues	-	-	-	-	-
Revenues	**7,241**	**8,217**	**8,973**	**10,391**	**12,270**
Growth (%)	*5.1*	*13.5*	*9.2*	*15.8*	*18.1*
Change is stocks	-56	-652	114	-	-
Raw Material	3,830	4,226	3,802	4,479	5,276
Employee Cost	73	100	215	244	270
R&D Expenses	-	-	-	-	-
Manufacturing Expenses	-	-	-	-	-
Administrative expenses	2,836	3,886	3,916	4,447	5,092
Selling & Distribution Exp	-	-	-	-	-
Sector specific expense	-	-	-	-	-
EBITDA	**559**	**657**	**926**	**1,221**	**1,632**
Growth (%)	*34.1*	*17.5*	*40.8*	*31.9*	*33.7*
EBITDA margin (%)	*7.7*	*8.0*	*10.3*	*11.8*	*13.3*
Other income	65	83	86	104	123
Operating profit	**624**	**740**	**1,012**	**1,325**	**1,755**
Depreciation	114	137	148	158	168
EBIT	**510**	**603**	**864**	**1,167**	**1,587**
Interest cost	202	194	197	166	138
PBT	**308**	**409**	**667**	**1,000**	**1,449**
Tax	113	145	233	340	493
Effective tax rate (%)	*36.8*	*35.6*	*34.9*	*34.0*	*34.0*
PAT	**194**	**264**	**435**	**660**	**956**
Minority interest	-	-	-	-	-
Associate profit	-	-	-	-	-
Consol PAT	**194**	**264**	**435**	**660**	**956**
Growth (%)	*41.7*	*35.5*	*64.9*	*51.9*	*44.8*
PAT margin (%)	*2.7*	*3.2*	*4.8*	*6.4*	*7.8*
Extra-ordinary income	-	-	-	-	-
Dividends (incl Tax)	-	14	65	98	144
Transferred to reserves	**194**	**250**	**369**	**562**	**813**
Per Share data					
FDEPS (₹)	17.9	24.3	40.1	60.9	88.2
DPS (₹)	-	1.5	5.0	7.5	11.0
Adj BV (₹)	111.0	134.2	166.9	218.7	293.7
CEPS (₹)	39.8	51.8	53.7	75.5	103.7
Valuation ratio					
P/E (x)	117.1	86.4	52.4	34.5	23.8
P/adj BV (x)	18.9	15.7	12.6	9.6	7.2
P/C (x)	52.8	40.6	39.1	27.8	20.3
Dividend Yield (%)	-	0.1	0.2	0.4	0.5
EV/S (x)	3.4	3.0	2.8	2.4	2.0
EV/E (x)	44.0	38.0	26.7	20.0	14.8
Quality ratio					
Dividend Payout (%)	-	4.4	12.5	12.3	12.5
Other income/PBT (%)	21.0	20.2	12.9	10.4	8.5
Interest cover (x)	2.5	3.1	4.4	7.0	11.5
Operating CF/EBITDA (x)	-0.4	-0.4	0.4	0.4	0.3

Source: Company, Anand Rathi Research

Fig 45– Balance sheet (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Equity	77	77	108	108	108
Reserves	1,126	1,377	1,701	2,263	3,076
Minority interests	-	-	-	-	-
Less: Misc Exp	-	-	-	-	-
Networth	**1,204**	**1,455**	**1,809**	**2,372**	**3,184**
Equity (% of CE)	*38.0*	*38.0*	*46.6*	*57.2*	*68.4*
LT Debt	649	829	661	661	661
ST Debt	1,266	1,501	1,389	1,089	789
Total debt	**1,915**	**2,330**	**2,050**	**1,750**	**1,450**
Debt to equity (x)	*1.6*	*1.6*	*1.1*	*0.7*	*0.5*
DTL (net)	45	41	23	23	23
Capital Employed	**3,165**	**3,826**	**3,882**	**4,145**	**4,658**
Gross block	1,337	1,455	1,514	1,614	1,714
Acc Depreciation	483	618	765	924	1,091
Net block	**854**	**837**	**748**	**690**	**622**
CWIP	4	6	0	0	0
Fixed assets	**857**	**843**	**749**	**690**	**622**
Investments	-	0	3	3	3
Cash Equivalents	91	104	97	53	53
Inventories	1,211	2,084	2,049	2,482	2,897
Debtors	1,852	1,932	2,265	2,453	2,863
Loans & Advances	200	199	150	150	150
Other Current Assets	5	9	5	5	5
Current Assets	**3,359**	**4,327**	**4,566**	**5,145**	**5,969**
Creditors	785	1,018	934	1,146	1,330
Provisions	2	64	173	173	173
Other Current Liabilities	265	263	329	374	434
Current Liabilities	**1,052**	**1,345**	**1,436**	**1,693**	**1,937**
Net Current Assets	**2,307**	**2,982**	**3,131**	**3,451**	**4,032**
Capital Deployed	**3,165**	**3,826**	**3,882**	**4,145**	**4,658**
FA/CE (%)	*27.1*	*22.0*	*19.3*	*16.7*	*13.4*
Investments/CE (%)	*-*	*0.0*	*0.1*	*0.1*	*0.1*
Liquid assets/CE (%)	*2.9*	*2.7*	*2.5*	*1.3*	*1.1*
Working Capital/CE (%)	*70.0*	*75.2*	*78.1*	*82.0*	*85.4*

Source: Company, Anand Rathi Research

Fig 46– Cash-flow statement (₹m)

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Cash Profit	325	396	565	818	1,124
Chg in WC	521	662	155	364	581
Operating CF	**-196**	**-266**	**410**	**454**	**543**
Capex	215	124	53	100	100
Free CF	**-411**	**-389**	**357**	**354**	**443**
Equity	-	-	-	-	-
Debt	403	415	-281	-300	-300
Investments	-0	0	3	-	-
Dividends	-	14	65	98	144
Misc inflows	2	-1	15	-0	0
Net change in cash	**-10**	**13**	**-7**	**-43**	**-0**
Opening cash	100	91	104	97	53
Closing cash	**91**	**104**	**97**	**53**	**53**

Source: Company, Anand Rathi Research

Fig 47– Ratio analysis @ ₹2,100

Year-end: Mar	FY15	FY16	FY17	FY18e	FY19e
Dupont Analysis					
Margins (%)	7.0	7.3	9.6	11.2	12.9
Capital turn (x)	2.5	2.4	2.3	2.6	2.8
RoCE (%)	17.8	17.2	22.4	29.1	36.1
Leverage factor(x)	2.6	2.6	2.4	1.9	1.6
Interest burden (x)	0.6	0.7	0.8	0.9	0.9
Tax burden (x)	0.6	0.6	0.7	0.7	0.7
Consol factor (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	17.6	19.8	26.6	31.6	34.4
Working capital (Days)					
Inventories	65	99	92	86	85
Debtors	92	85	91	85	84
Loans & Advances	-	-	-	-	-
Other CA	-	-	-	-	-
Creditors	42	48	42	45	45
Provisions	-	-	-	-	-
Other CL	-	-	-	-	-
Net WC	115	135	141	126	124
Other ratios					
Op CF/Rev (%)	-2.7	-3.2	4.6	4.4	4.4
FCF/Rev (%)	-5.7	-4.7	4.0	3.4	3.6
Intangibles/GB (%)	-	-	-	-	-
Intangibles/CE (%)	-	-	-	-	-
Revenue/GB (x)	5.4	5.6	5.9	6.4	7.2
Revenue/FA (x)	8.4	9.7	12.0	15.0	19.7
CWIP/GB (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Valuation

Dollar Industries is one of the fastest-growing companies in innerwear in India, a highly competitive market. Over the years, it has recognised the importance of building a brand and differentiating offerings in the value-added segment, evident from its high promotional expenditure. The super-premium and luxury international brands have not made huge inroads into this market.

The company's focus on increasing the proportion of premium products, evolving from an innerwear brand to a lifestyle brand and brand-promotion efforts augur well for growth ahead. However, in a highly competitive industry such as hosiery, implementation is critical for success. Further, the company's focus on rationalising incentives to dealers and control on advertising would aid margin expansion.

With its asset-light business model focusing on high-end manufacturing in-house and outsourcing low-end jobs, the company enjoys a healthy asset turn. It is expected to report free cash-flows of ~₹800m over FY17-19.

It was earlier listed on the Calcutta stock exchange and in Apr'17 was listed on the NSE.

The scrip trades at a PE of 23.8x FY19e. Industry leader Page Industry trades at a P/E of 47.5x FY19 and PEG of 1.9x. The multiple of 30x that is ascribed to Dollar Industries is on the basis of future cash-flow assurance as well as its strengthening balance sheet. Return ratios are expected to move up 780bps in the next two years. We have seen domestic companies such as Rupa command higher multiples following an international brand tie-up. Dollar Industries is expected to clock 48%PAT CAGR in next two years, higher than the expected profitability growth of industry leader Page (Bloomberg consensus).

Fig 48 – Peer comparison

	Net sales (₹ m)		EBITDA (₹ m)		PAT (₹ m)		EBITDA margin (%)		RoE (%)	
Company	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
Page	17,956	21,301	3,752	4,132	2,327	2,663	20.9%	19.4%	50.5	45.5
Rupa	10,148	10,928	1,321	1,389	659	722	13.0%	12.7%	19.0	17.9
Lux	9,409	9,720	946	1,200	513	628	10.1%	12.3%	24.3	23.6
Dollar	8,217	8,973	657	926	264	435	8.0%	10.3%	19.8	26.6

Source: Bloomberg

Risks

- **Volatile raw material prices.** Any delay or inability of the company to pass on fluctuation in raw material prices could impact margins.
- **Changing technology and consumer behaviour.** The innerwear segment is subject to fast changes in consumer preference and technology. The inability of the company to respond to such changes would hurt its performance.
- **Cut-throat competition.** The company operates in a cut-throat competitive environment with international and domestic brands. Standing out in such a competitive environment is essential.

Company Background & Management

Established in 1972 by Dindayal Gupta as a proprietorship, the company was incorporated in 2005 as Bhawani Textiles, then renamed Dollar Industries in 2008. It began its journey with its signature brand "Dollar" in men's vests and briefs. Now, it has a wide range in men's, women's and kids' innerwear.

At present, Dollar Innerwear is one of the well-known brands in innerwear in India. It caters to the economy, middle and premium segments. Exports constitute 9% of sales. It has been given the status of an "export house" by the government of India. From just being a men's innerwear company, it has made a foray into women's innerwear and outerwear, kids' innerwear and other categories such as thermals. It has a wide distribution and retail network in India: more than 850 distributors and more than 80,000 retailers.

The company has backward integrated facilities together with job work facilities. Its manufacturing facilities – both owned and outsourced – are at Kolkata and Tirupur (hosiery), Delhi (socks) and Ludhaina (thermal wear). Dollar products are marketed in 11 countries.

The Board is constituted of people from the promoter group and six independent directors, with diversified work experience.

Fig 49 – Board of Directors and Management

Name	Designation	Detail
Din Dayal Gupta	Promoter & Chairman	More than five decades' experience in hosiery. Looks after policy &management planning
Vinod Kumar Gupta	Promoter & MD	Chartered Accountant & Company Secretary. More than three decades' experience in finance, marketing and administration. Looks after overall management
Bajrang Kumar Gupta	Promoter & WTD	Bachelor of Technology. About two decades' experience. Looks after technical aspect of production, quality control, purchase management, etc.
Binay Kumar Gupta	Promoter & MD	B. Com. Looks after procurement of raw materials, production aspects, marketing and exports
Krishan Kumar Gupta	Promoter & WTD	B.Sc. More than two decades' experience in manufacturing. Looks after production, quality management and development of new products

Source: Company

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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