ANANDRATHI

India I Equities

Consumer

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

06 January 2018

Dollar Industries

Premiumisation to continue; Hold

Rating: **Hold**

Target Price: ₹537

Share Price: ₹470

Our interaction with the management suggests that Dollar Industries is on track for a strong, ~30% y/y, revenue growth in H2 FY18 (we estimate 15% after a dismal 4.2% in H1 FY18). Recent fund raising (a preferential issue to the promoter group) would help lower interest cost through debt reduction. The company is open to acquisitions to expand its reach after the recent JV with 'Pepe Jeans' for innerwear.

Margin uptrend to continue owing to a better product mix. The shares of the premium and mid-premium segments are on an uptrend (66% in H1 FY18, ~64% in FY17) and have resulted in a higher average selling price (₹53.4 in H1 vs ₹52 in FY17) and in the operating margins (up 240bps to 12.1% in H1). Ahead, we expect the trend to continue.

JV with Pepe Jeans to render the product-mix richer. The company recently entered a 50:50 JV with "Pepe Jeans" Europe, to manufacture and market the latter's premium range of fashion innerwear products in India under the "Pepe Jeans" brand. It will invest ₹360m in the next four years and expects EBITDA break-even in two years and PAT breakeven in four.

Fund raising to aid in debt reduction. The company raised ₹1.07bn from the promoter group, issuing 2.5m shares at ₹430 each. This would help in debt reduction (~₹700m unsecured loans and ~₹200m of working capital loan from H1 FY18 level) and funding investments in the JV (₹90m each in next four years). It also aims to be debt-free by FY20.

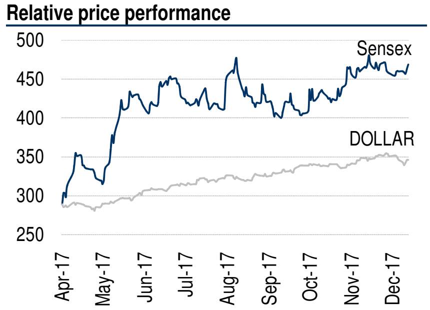
Valuation. The weak H1 FY18 performance leads us to cut our FY18e/19e PAT estimates by 7%/9%. We expect revenue to clock a 13% CAGR over FY17-20, and 36% in PAT. While we are positive on the company, we lower our rating to a Hold, with a revised target of ₹537 (28x FY20e P/E) due to limited potential. **Risks.** Volatile raw-material prices, changing customer preferences, cut-throat competition.

Key data	DOLLAR IN
52-week high/low	₹494 / ₹263
Sensex/Nifty	34154 / 10559
3-m average volume	$0.2m
Market cap	₹26bn / $403m
Shares outstanding	54.2m

Shareholding pattern (%)	Sep '17	Jun '17	Mar '17
Promoters	54.9	54.9	54.9
- of which, Pledged	-	-	-
Free Float	45.2	45.2	45.1
- Foreign institutions	2.7	3.1	
- Domestic institutions	7.1	6.6	
- Public	35.3	35.5	45.1

Estimates revision (%)	FY18e	FY19e
Sales	-7.0	-9.0
EBITDA	-4.2	-8.3
EPS	-10.9	-11.0

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY16	FY17	FY18e	FY19e	FY20e
Sales (₹ m)	8,217	8,973	9,667	11,170	12,981
Net profit (₹ m)	264	435	615	890	1,087
EPS (₹)	4.9	8.0	10.8	15.7	19.2
PE (x)	96.7	58.6	43.3	29.9	24.5
EVEBITDA (x)	43.9	31.0	23.6	18.0	15.3
PBV (x)	18.3	14.7	7.8	6.5	5.3
RoE (%)	19.8	26.6	23.6	23.7	23.9
RoCE (%)	11.1	14.4	16.3	19.0	21.1
Dividend yield (%)	0.1	0.2	0.3	0.5	0.6
Net debt/equity (x)	1.5	1.1	0.3	0.1	0.0

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
Net revenues (₹ m)	8,217	8,973	9,667	11,170	12,981
Growth (%)	**13.5**	**9.2**	**7.7**	**15.5**	**16.2**
Direct costs	3,574	3,916	4,205	4,825	5,608
SG&A	3,985	4,131	4,292	4,848	5,634
EBITDA	**657**	**926**	**1,170**	**1,497**	**1,739**
EBITDA margins (%)	8.0	10.3	12.1	13.4	13.4
- Depreciation	137	148	158	168	178
Other income	83	86	87	112	130
Interest Exp	194	197	166	91	44
PBT	409	667	932	1,349	1,647
Effective tax rate (%)	35.6	34.9	34.0	34.0	34.0
+ Associates/(Minorities)	-	-	-	-	-
Net Income	264	435	615	890	1,087
Adjusted income	264	435	615	890	1,087
WANS	54	54	57	57	57
FDEPS (₹/share)	4.9	8.0	10.8	15.7	19.2
FDEPS growth (%)	35.5	64.9	35.3	44.7	22.1
Gross Margin(%)	56.5	56.4	56.5	56.8	56.8

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
Share capital	77	108	113	113	113
Net worth	1,455	1,809	3,397	4,117	4,999
Total debt (incl. pref.)	2,330	2,163	1,463	963	463
Minority interest	-	-	-	-	-
DTL / (asset)	41	23	23	23	23
Capital employed	**3,826**	**3,996**	**4,884**	**5,103**	**5,486**
Net tangible assets	837	747	690	622	544
Net Intangible assets	0	1	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	6	0	0	0	0
Investments (strategic)	-	-	-	-	-
Investments (financial)	0	3	3	3	3
Current assets (ex cash)	4,224	4,470	4,989	5,523	6,394
Cash	104	97	468	619	455
Current liabilities	1,345	1,322	1,267	1,664	1,911
Working capital	2,879	3,147	3,722	3,859	4,483
Capital deployed	**3,826**	**3,996**	**4,884**	**5,103**	**5,486**
Contingent Liabilities	12	18			

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
PBT	409	667	932	1,349	1,647
+ Non-cash items	137	148	158	168	178
Oper. prof. before WC	546	815	1,090	1,517	1,825
- Incr. / (decr.) in WC	662	269	575	137	624
Others incl. taxes	150	250	317	459	560
Operating cash-flow	-266	297	198	922	642
- Capex (tang.+ intang.)	124	53	100	100	100
Free cash-flow	-389	244	98	822	542
Acquisitions					
- Div.(incl. buyback, & taxes)	14	65	102	171	205
+ Equity raised	-	-0	1,075	-	-
+ Debt raised	415	-167	-700	-500	-500
- Fin investments	0	3	-	-	-
- Misc. (CFI + CFF)	(1)	15	(0)	-	-
Net cash-flow	13	-7	371	151	-163

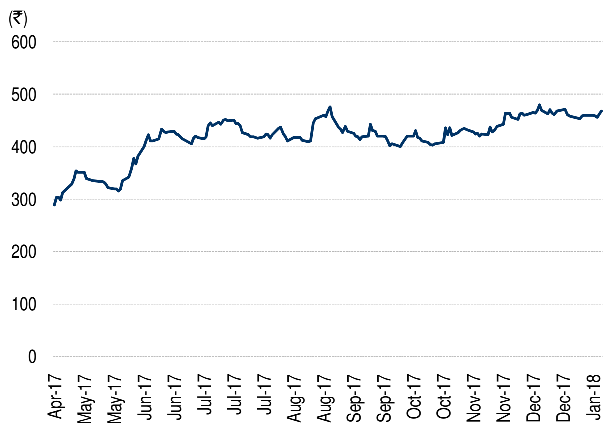
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹470

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
P/E (x)	96.7	58.6	43.3	29.9	24.5
EV / EBITDA (x)	43.9	31.0	23.6	18.0	15.3
EV / sales (x)	3.5	3.2	2.9	2.4	2.1
P/B (x)	18.3	14.7	7.8	6.5	5.3
RoE (%)	19.8	26.6	23.6	23.7	23.9
RoCE (%) - after tax	11.1	14.4	16.3	19.0	21.1
Fixed asset T/O (x)	11.4	14.8	17.4	21.4	23.5
DPS (₹ / sh)	0.3	1.0	1.5	2.5	3.0
Dividend yield (%)	0.1	0.2	0.3	0.5	0.6
Div. payout (%) - incl. DDT	4.4	12.5	13.8	15.9	15.6
Net debt / equity (x)	1.5	1.1	0.3	0.1	0.0
Receivables (days)	85	91	90	87	87
Inventory (days)	99	92	90	86	86
Payables (days)	48	42	38	47	47
CFO:PAT%	-100.9	68.2	32.2	103.5	59.0

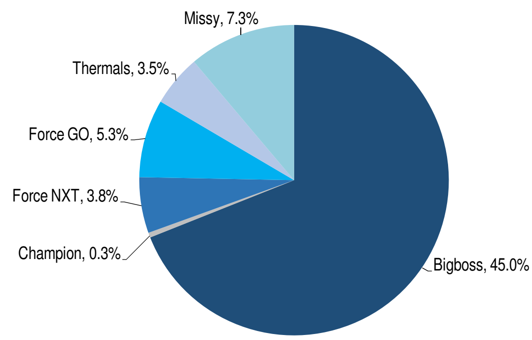
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Brand-wise revenue break-up (H2 FY18)



Source: Company, Anand Rathi Research

Company Update

One of the fastest-growing lifestyle knitwear and innerwear companies in India, Dollar Industries operates in the hosiery industry, which is now highly unorganised and fragmented, but moving towards the formal market, which augurs well for the company. The company has transformed itself from just another regional hosiery company to one with all-India operations and brand recall.

It 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 and Force NXT.

Fig 7 – Product ranges

Source: Company, Anand Rathi Research

Fig 8 – 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

Competitive pricing and a wide product range

It has a wide product range covering the economy to premium segments across categories such as men's, women's and children's. In FY17, ~86% of its revenue arose from men's products. Its products are also competitively priced compared to its peers such as Rupa, Lux, Amul, VIP and others.

Fig 9 – Product price comparision

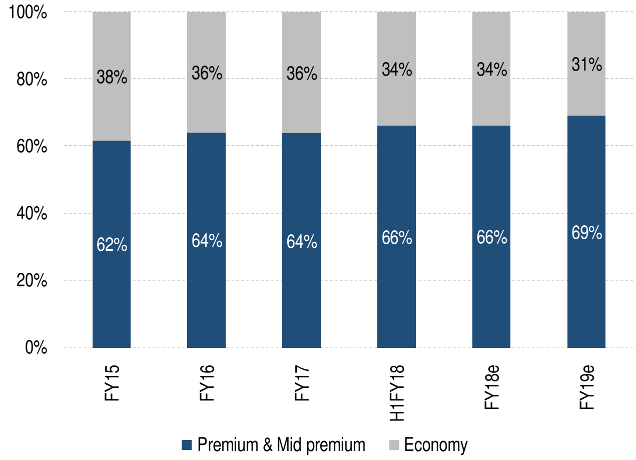
Brand	MRP - Vests (85 cm)	MRP - Trunks (85 cm)
Dollar Bigboss	109	116
Rupa Frontline	103	141
Amul Macho	95	108
VIP	116	125

Source: Company

Margin uptrend to continue owing to a better product mix

The shares of the premium and mid-premium segments have been on a continuous rise (66% in H1 FY18 vs ~64% in FY17) which has resulted in a higher average selling price (₹53.4, vs ₹52 in FY17) and the operating margin (up 240bps to 12.1% in H1 FY18). Input tax credit under the GST regime and lower raw material costs also helped in the margin expansion. Ahead, we expect the trend to continue owing to the continuous focus on premiumisation.

Fig 10 – Increasing share of premium and mid-premium products



Source: Company

Fig 11 – Share of premium products on uptrend

Brand	Share (%) (H1 FY18)	Share (%) (H1 FY17)
Bigboss	45.0	44.0
Force NXT	3.8	2.0
Missy	7.3	6.0
Champion	0.6	2.0
Force GO	5.8	6.0
Thermals	3.5	6.0

Source: Company

JV with Pepe Jeans to make the product mix richer

In Aug'17, Dollar Industries entered into a 50:50 JV with Pepe Jeans, Europe, a Netherlands-based company to manufacture and market in India a premium range of fashion innerwear, loungewear, gymwear, and sleepwear and track suits for adults and kids under the brand name "Pepe Jeans London". The JV will sell its products in Sri Lanka, Nepal, Bhutan and Bangladesh. Pepe Jeans, Europe, has operations in more than 80 countries across the world.

This JV would have an exclusive perpetual licensing agreement, renewable every 10 years. Products will be available at Pepe Jeans' 217 exclusive stores and about 1,000 multi-brand stores across India, besides through

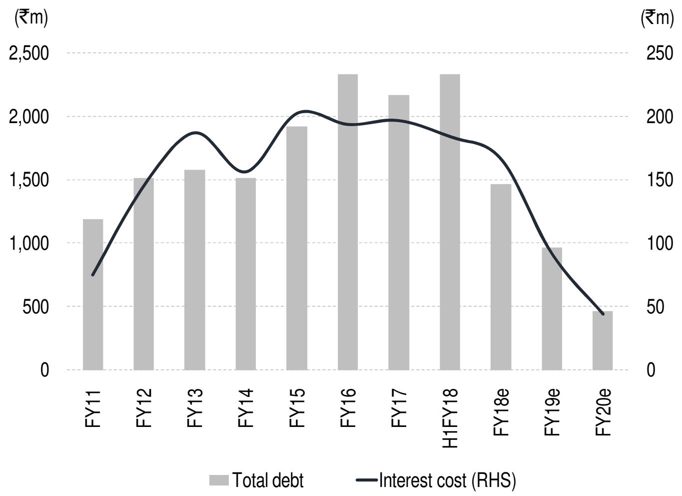
Dollar Industries' vast distribution network (over 100,000 MBOs and stores).

Products under this JV are expected to be launched by end-Q4 FY18 and sales would start from Q1 FY19. Investment in this JV would be ₹2,000m (₹720m in equity, the rest through debt). Dollar would invest its portion of ₹360m over the next four years (₹90m each). It expects ₹600m revenues from the JV in FY19 and aims to break even at the EBIDTA and PAT levels within two and four years respectively. It expects to achieve an EBITDA margin of at least 15% once economies of scale are in place (in the fifth or sixth year of operation). We have not factored in the financials of this JV in FY19 and FY20 due to low clarity. Any meaningful loss during this period may impact our earnings expectations.

Equity issuance to the promoter group entity to aid in debt reduction.

Dollar Industries raised ₹1.07bn from the promoter entity (M/s. Simplex Impex Pvt. Ltd.) by allotting 2.5m equity shares at ₹430 each. The funds raised would be used for debt reduction (~₹700m of unsecured loans from the same entity and ~₹200m of working capital loan) and funding investments in the JV with Pepe Jeans (₹90m each for the next four years). The company aims to be debt free by end-FY20.

Fig 12 – Debt burden to ease



Source: Company, Anand Rathi Research Note: Interest figure for H1 FY18 is annualised.

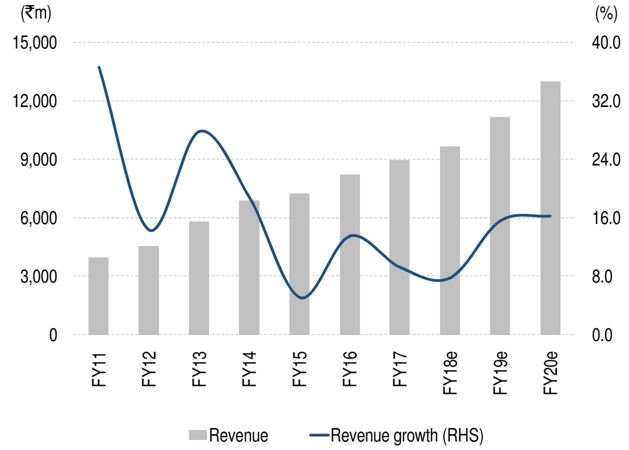
The FY18 financial performance so far...

Fig 13 – Financials

(₹ m)	Q2 FY17	Q2 FY18	% y/y	H1 FY17	H1 FY18	% y/y	H2FY18e	FY18e
Sales	1,972	2,127	7.9	4,339	4,522	4.2	5,146	9,667
EBITDA	244	291	18.9	422	549	29.9	621	1,170
EBITDA margin (%)	*12.4*	*13.7*	*127bps*	*9.7*	*12.1*	*240bps*	12.1	12.1
Interest	62	46	(26.1)	101	92	-9.3	74	166
Depreciation	28	30	6.3	63	59	-6.1	99	158
Other income	5	10	110.9	5	11	102.	76	87
PBT	159	225	41.4	263	409	55.1	523	932
Tax	45	76	68.5	67	135	100.2	182	317
Tax rate (%)	*28.4*	*33.8*	*544bps*	*25.6*	*33.0*	*743bps*	34.8	34.0
Adj. PAT	114	149	30.7	196	274	39.7	341	615
Debt	**-**	**-**	**-**	**-**	**2,329**	**-**	**1,463**	**1,463**

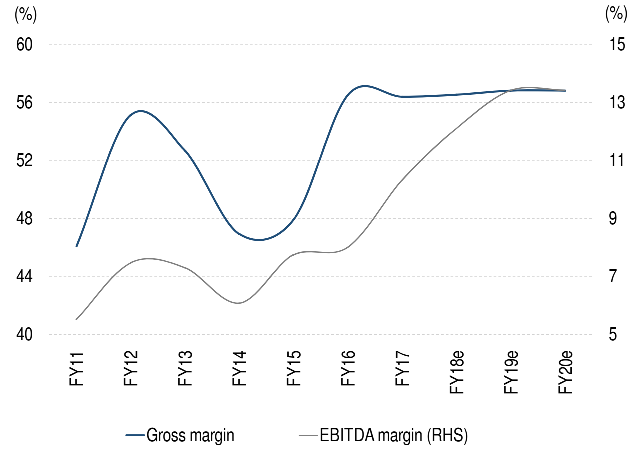
Source: Company, Anand Rathi Research

Fig 14 – Revenue to clock a 13% CAGR over FY17-20e



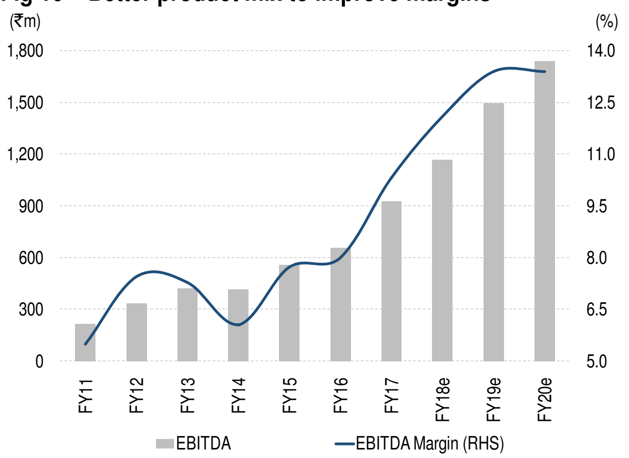
Source: Company, Anand Rathi Research

Fig 15 – Margins on uptrend



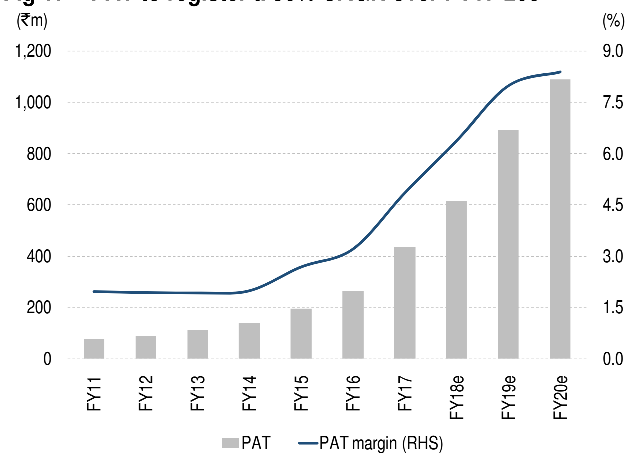
Source: Company, Anand Rathi Research

Fig 16 – Better product mix to improve margins



Source: Company, Anand Rathi Research

Fig 17 – PAT to register a 36% CAGR over FY17-20e



Source: Company, Anand Rathi Research

Management Commentary

- The GST roll-out proved to be challenging for the company in H1. Management expects a gradual shift from the unregulated to the formal market after the GST implementation. Re-stocking began in Q2 but would be complete in H2 FY18. Management aims at ₹5,800m in revenue in H2 FY18 (up 31% y/y) owing to strong sales of thermal wear and re-stocking.
- Debtors, inventory and payable days were 90, 95 and 31 respectively. Debtors days increased due to the GST roll-out and inventory days increased due to de-stocking and the production of thermal products for winter.
- On premium and economic products, the approximate trade margin to dealers is ~9% and 6% respectively. The margin to MBOs (retailers) is 30% and 15-18% for premium and economy products respectively
- The company had 870 distributors and 84,000 touch points in H1 FY18.
- Management clarified that the rise in yarn prices would result in higher RMC, but the company expects to maintain its EBITDA margin by controlling administrative expenses and through price hikes.

- Exports brought 8% to revenue. The company has started marketing its products in Ukraine, Saudi Arabia and some African countries such as Nigeria. It has received some orders from Ukraine and African countries for the "Big Boss" brand.
- The GST has had no adverse impact as, earlier, the company was liable to pay 5% VAT; now it is liable to pay 5% GST.
- Advertising expenses during Q2 were ~₹224.6m.
- In Q1 FY18, the company raised prices of its products 3%. In the last financial year, it had raised prices 4-5%.
- It expects an EBITDA margin of at least 15% from the JV with 'Pepe Jeans' after economies of scale come through.
- No major capex is planned for FY18 and FY19.
- It aims to be debt free by end-FY20.

Change in estimates

We cut our FY18 and FY19 estimates: revenue by 7% and 9%, EBITDA by 4% and 8%, PAT by 7% and 7% owing to the weak H1 FY18, and EPS by a higher 11% and 11% due to equity dilution.

Although management is expecting 31% y/y growth in revenue in H2 FY18 (to ₹5,800m) owing to strong winter demand and re-stocking, we assume a lower, ~15% y/y growth (to ₹5,145m) which posses an upside risk to our estimates.

Fig 18 – Estimates revision

(₹ m)	Old estimates		New estimates		Change (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
Revenue	10,391	12,270	9,667	11,170	-7.0	-9.0
EBITDA	1,221	1,632	1,170	1,497	-4.2	-8.3
PAT	660	956	615	890	-6.8	-6.9
EPS	12.2	17.6	10.8	15.7	-10.9	-11.0

Source: Anand Rathi Research

Valuation

We like the company due to its focus on premiumisation and its planned evolution from an innerwear brand to a lifestyle one. The hosiery industry, which currently is highly unorganised and fragmented, is moving towards the formal market, and this augurs well for companies such as Dollar Industries, which has strong brand positioning. It is also focusing on margin expansion by rationalizing advertising costs and dealer incentives.

We forecast revenues to clock a 13% CAGR, while EBITDA and PAT would register 23% and 36% CAGRs respectively over FY17-20. While the RoCE is expected to expand to 21% in FY20 (14.4% in FY17), the RoE would be maintained at ~24%.

While we are positive on the company, we lower our recommendation on the stock to a Hold, with a revised target of ₹537 (28x FY20e P/E) (earlier `529 – 30x FY19 P/E) due to limited potential after the 17% rise in the stock price in the last three months. Page Industries, the industry leader, with an FY20e RoE/RoCE of 43%/60% trades at 53x FY20e P/E. (Source: Bloomberg)

Fig 19 – Peer Comparison

	BB code	Market cap (`bn)	Margin %		EV/EBITDA		RoE	
Company			2016	2017	2016	2017	2016	2017
Page	PAG IN	273	17,749	21,058	21.1	19.6	50.5	44.5
Rupa	RUPA IN	38	10,148	10,928	13.3	12.8	18.9	17.9
Lux	LUX IN	38	9,408	9,716	10	12.3	32.9	29.8
Dollar	DOLLAR IN	26	8,217	8,973	8	10.3	19.8	26.6

Source: Anand Rathi Research

Risks

- **Volatile raw material prices.** Any delay or inability of the company to pass on fluctuations in raw material prices could eat into margins
- **Changing technology and consumer behaviour.** The innerwear sub-segment is subject to rapid 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 environment with international and domestic brands. Standing out in such a competitive environment is essential.

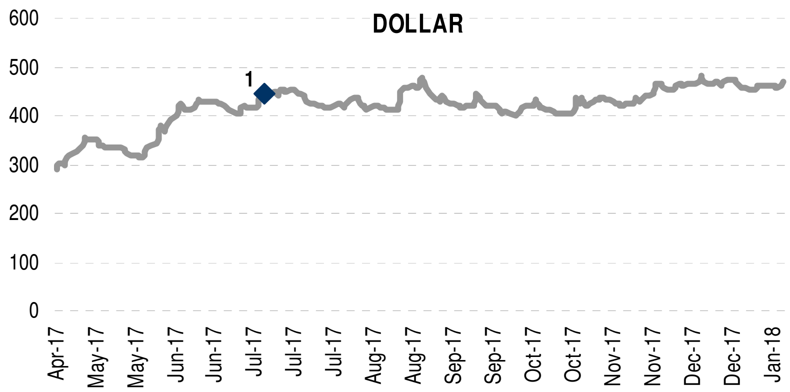
Appendix

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.

Important Disclosures on subject companies

Rating and Target Price History (as of 6 January 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	06-Jul-17	Buy	2,646	2,100

Anand Rathi Ratings Definitions

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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