

14 November 2019

Dollar Industries

Disappointing performance; lowering to a Hold

Subdued demand led to a 12% volume decline for Dollar Industries in Q2 FY20, leading to revenue coming flat y/y at ₹2,432m. The ASP rose 5% y/y. The gross margin was hit by higher raw-material prices (cotton and yarn procured at higher rates were utilised in Q2) as well by the impact of sales incentives passed on to distributors. The working capital cycle (lengthening 20 days y/y to 198 in H1 FY20) continues to be a key concern as efforts made to reduce debtor days (up 23 y/y to 123 in H1 FY20) by convincing distributors to take up channel financing has yet to yield results. We alter our rating to a Hold, with a target of ₹182 (earlier ₹329), valuing the stock at 15x FY21e P/E (20x earlier).

Raw-material price rises, sales incentives hit margins. Higher raw-material costs led to the gross margin shrinking a drastic 50.4% vs 60.7% in Q2 FY19. Other expenses were down 121bps y/y, and sub-contracting expenses, 445bps y/y. However, the lower gross margin pulled the EBITDA margin down 533bps y/y to 9.6%. Absolute EBITDA declined 35.6% y/y to ₹233m. Depreciation was up 35.1% y/y, interest expense was 7.1% higher y/y. Other income was ₹5m (₹2.5m a year ago). The tax rate was 16.6% (35.3% a year back). Reported PAT, at ₹137m, was down 30.1%.

Strain on working-capital cycle persists. The distributor level liquidity crunch continues to impact the working-capital cycle. The company has been working with SBI as a channel partner to finance debtors. Management said it is working on remodeling its distribution channel to be more retail focused where distributors will only have to service the retailers. This is expected to lead to distributors adapting to the new system and take up channel financing.

Valuation. We cut our FY20e/FY21e PAT 16.8%/24.1%. Given the longer working-capital cycle with no improvement visible and sluggish growth, we value the stock at 15x FY21e P/E (20x earlier) at a target of ₹182 (earlier ₹329). **Risks:** Volatile raw-material prices, changing customer preferences, cut-throat competition.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	8,861	9,256	10,288	10,829	11,418
Net profit (₹ m)	435	636	753	661	690
EPS (₹)	8.0	11.2	13.3	11.7	12.2
PE (x)	20.7	14.8	12.5	14.2	13.6
EV / EBITDA (x)	11.3	8.8	8.3	9.8	9.2
PBV (x)	5.0	2.7	2.3	2.0	1.8
RoE (%)	26.1	23.6	19.6	15.1	14.2
RoCE (%)	10.6	12.4	11.4	9.2	8.9
Dividend yield (%)	0.6	1.0	8.0	1.8	1.8
Net debt / equity (x)	1.0	0.4	0.5	0.5	0.4

Source: Company, Anand Rathi Research

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Rating: **Hold**

Target Price: ₹182

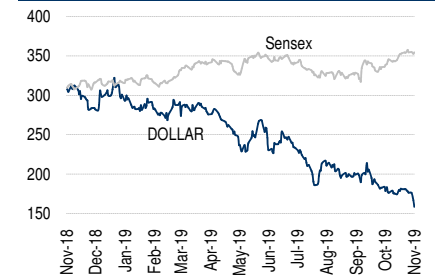
Share Price: ₹166

Key data	DOLLAR IN
52-week high / low	₹335 / 157
Sensex / Nifty	40286 / 11872
3-m average volume	\$0m
Market cap	₹9bn / \$124.6m
Shares outstanding	57m

Shareholding pattern (%)	Sep'19	Jun'19	Mar'19
Promoters	60.1	60.0	60.0
- of which, Pledged	7.3	7.4	7.4
Free float	39.9	40.0	40.0
- Foreign institutions	0.3	0.3	0.3
- Domestic institutions	8.3	8.2	7.8
- Public	31.4	31.5	31.9

Estimates revision (%)	FY20e	FY21e
Sales	-4.5	-8.1
EBITDA	-24.0	-28.7
EPS	-16.8	-24.1

Relative price performance



Source: Bloomberg

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Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Net revenues	8,861	9,256	10,288	10,829	11,418
Growth (%)	7.8	4.4	11.2	5.3	5.4
Direct costs	3,916	4,059	4,335	4,786	5,047
SG&A	3,946	3,958	4,595	4,862	5,127
EBITDA	999	1,239	1,357	1,180	1,245
EBITDA margins (%)	11.3	13.4	13.2	10.9	10.9
- Depreciation	148	122	111	127	140
Other income	14	20	22	23	25
Interest expenses	198	179	157	183	197
PBT	668	958	1,111	893	932
Effective tax rate (%)	34.8	33.3	32.2	25.8	26.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	435	636	753	661	690
Adjusted income	435	636	753	661	690
WANS	54	57	57	57	57
FDEPS (₹ / sh)	8.0	11.2	13.3	11.7	12.2
FDEPS growth (%)	65.0	39.9	18.3	(12.2)	4.3
Gross margins (%)	55.8	56.1	57.9	55.8	55.8

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	108	113	113	113	113
Net worth	1,875	3,524	4,157	4,613	5,098
Debt (incl. pref.)	1,949	1,700	2,112	2,462	2,462
Minority interest	-	-	-	-	-
DTL / (Assets)	24	4	1	1	1
Capital employed	3,848	5,228	6,269	7,075	7,560
Net tangible assets	747	683	702	695	675
Net intangible assets	1	1	1	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	0	21	20	20	20
Investments (strategic)	-	26	50	50	50
Investments (financial)	3	8	9	9	9
Current assets (ex cash)	4,464	5,796	7,084	7,834	8,325
Cash	100	196	215	305	419
Current liabilities	1,467	1,503	1,810	1,837	1,937
Working capital	2,996	4,292	5,273	5,997	6,388
Capital deployed	3,848	5,228	6,270	7,075	7,560
Contingent liabilities	18	-	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT (adj. for int. inc. & exp.)	863	1,128	1,246	1,053	1,105
+ Non-cash items	153	137	111	127	140
Oper. prof. before WC	1,016	1,265	1,357	1,180	1,245
- Incr. / (decr.) in WC	373	1,216	981	724	391
Others incl. taxes	213	359	365	232	242
Operating cash-flow	430	-311	11	224	611
- Capex (tang. + intang.)	55	78	128	120	120
Free cash-flow	375	-389	-117	104	491
Acquisitions					
- Div. (incl. buyback & taxes)	14	65	906	205	205
+ Equity raised	-	1,075	-	-	-
+ Debt raised	-166	-319	412	350	-
- Fin investments	3	35	25	-	-
- Misc. (CFI + CFF)	196	174	135	160	172
Net cash-flow	-3	94	-771	90	114

Source: Company, Anand Rathi Research

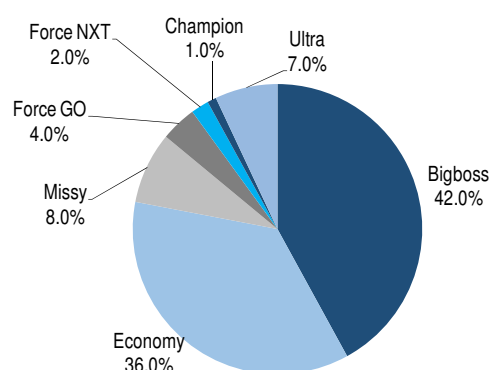
Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	20.7	14.8	12.5	14.2	13.6
EV / EBITDA (x)	11.3	8.8	8.3	9.8	9.2
EV / Sales (x)	1.3	1.2	1.1	1.1	1.0
P/B (x)	5.0	2.7	2.3	2.0	1.8
RoE (%)	26.1	23.6	19.6	15.1	14.2
RoCE (%) - after tax	10.6	12.4	11.4	9.2	8.9
RoIC (%) - after tax	10.8	12.7	11.7	9.5	9.2
DPS (₹ / sh)	1.0	1.6	13.3	3.0	3.0
Dividend yield (%)	0.6	1.0	8.0	1.8	1.8
Div. payout (%) - incl. DDT	12.5	14.3	100.0	25.7	24.7
Net debt / equity (x)	1.0	0.4	0.5	0.5	0.4
Receivables (days)	93	107	123	123	123
Inventory (days)	84	112	115	118	118
Payables (days)	39	44	52	50	50
CFO : PAT %	98.9	-48.8	1.5	33.9	88.6

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Brand-wise revenue break-up (FY19)


Source: Company

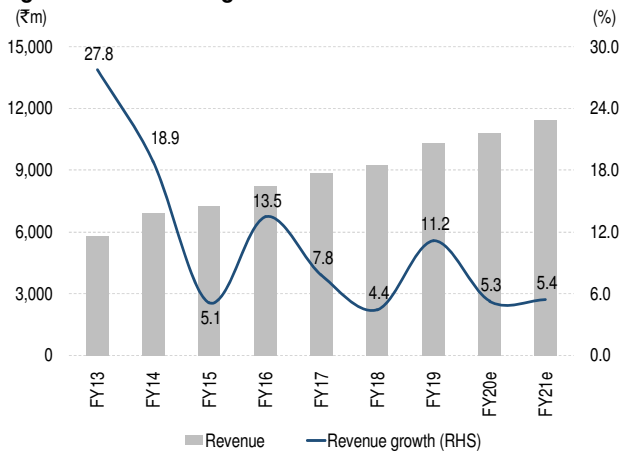
Financial highlights

Fig 7 – Financial performance

(₹ m)	Q2 FY20	Q2 FY19	% Y/Y	Q1 FY20	% Q/Q	H1 FY20	H1 FY19	% Y/Y
Sales	2,432	2,428	0.2	2,336	4.1	4,768	4,864	-2.0
Gross margin (%)	50.4	60.7	-1,029bps	58.8	-842bps	54.5	59.7	-519bps
EBITDA	233	362	-35.6	270	-13.6	503	644	-22.0
EBITDA margin (%)	9.6	14.9	-533bps	11.5	-197bps	10.5	13.2	-271bps
Depreciation	37	27	35.1	31	17.4	68	53	28.3
EBIT	196	335	-41.4	238	-17.7	434	591	-26.5
Interest	38	35	7.1	42	-9.8	79	70	13.9
Other Income	5	2.5	108.9	3	49.8	9	4	111.2
PBT	164	302	-45.8	200	-18.2	364	526	-30.8
Tax	27	107	-74.6	71	-61.7	98	192	-49.2
Tax rate (%)	16.6	35.3	-1,876bps	35.3	-1,876bps	26.9	36.6	-972bps
PAT	137	195	-30.1	129	5.5	266	333	-20.2

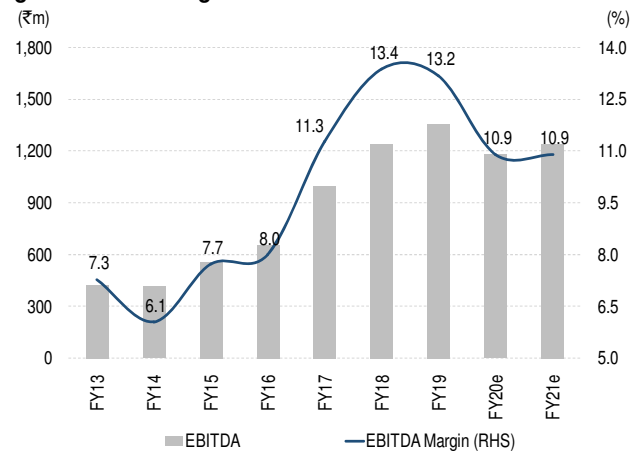
Source: Company

Fig 8 – Revenue to register a 5.4% CAGR over FY19-21



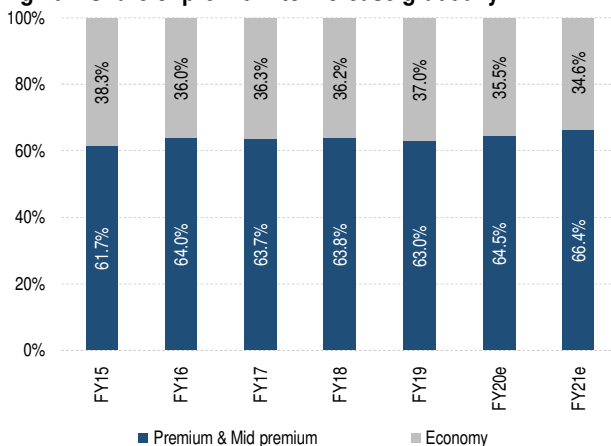
Source: Company, Anand Rathi Research

Fig 9 – EBITDA margin to touch ~11% in FY21



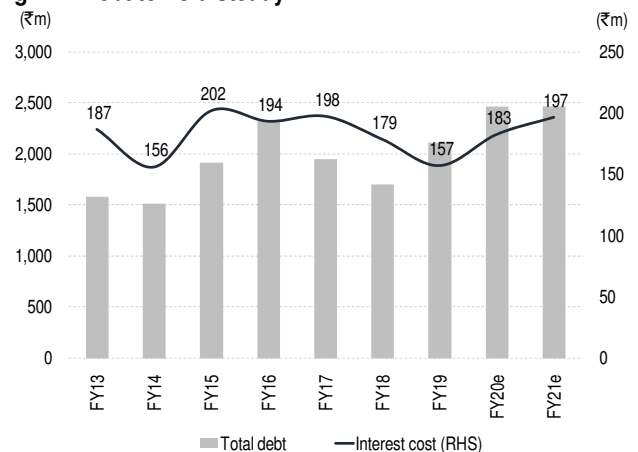
Source: Company, Anand Rathi Research

Fig 10 – Share of premium to increase gradually



Source: Company, Anand Rathi Research

Fig 11 – Debt to hold steady



Source: Company, Anand Rathi Research

Other Business updates

- The product mix for the quarter was: Big Boss 45%, Missy 9%, Champion 0.5%, Force go Wear 0.5%, Force NXT 2%, Economy 34%, Thermals 5%.
- Volumes declined 12% y/y in Q2 FY20 to 35.2m pieces while the ASP increased 5% to ₹61.
- Margins were affected by higher raw-material prices as cotton and cotton yarn prices moved up after June. (They have now fallen.) Due to inventory rationalisation, however, the higher-cost raw-material was consumed in Q2.
- Management said that athleisure wear in Force NXT and Bigboss did well during the quarter. With 80 products added, athleisure brought 2% to Q2 sales. Management expects the performance ahead to be encouraging. The increasing share of athleisure products will help widen the product range and the ASP.
- Pepe JV update: Pepe has seen a good performance. It is currently present in southern and northern India and achieved a turnover of ~₹90m in Q2, with a ~₹2m loss at the bottomline. The company has about 50 distributors. Also, it has been tying up with Pepe EBOS (tied up with 120 EBOs till now) and is looking at other channel partners and online platforms.

Working capital

- The liquidity crunch at the distributor level continues to impact the working-capital cycle. Management is trying to work with the distributors and convince them to enter the financial system through channel financing. It will also focus on rationalising distributors.
- Working-capital days lengthened to 198, from 180 in H1 FY19. Debtors days increased by 23 from a year ago to 123, while inventory days were steady at 121.

Outlook

- With thermal sales in Q3, and with Q4 generally being a stronger quarter, H2 FY20 is expected to be better with low double-digit growth. Management said orders for thermals have started coming in and dispatches have began.
- It plans on rolling out Force NXT across India in the next two quarters.
- The company is working with the distribution network to trim the WC cycle in future.

Change in estimates

The weak H1 FY20 performance drives us to reduce our FY20e and FY21e revenue respectively 4.5% and 8.1%. Challenging demand conditions and dampened consumer sentiment have impacted the company's revenue growth. We also reduce our EBITDA margin estimates respectively 280bps and 315bps as higher raw-material prices have dampened gross margins.

Fig 12 – Estimates revision

₹ m)	Old estimates		New estimates		Change (%)	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Revenue	11,340	12,427	10,829	11,418	-4.5	-8.1
EBITDA	1,554	1,746	1,180	1,245	-24.0	-28.7
PAT	795	909	661	690	-16.8	-24.1
EPS (₹)	14.0	16.0	11.7	12.2	-16.8	-24.1

Source: Anand Rathi Research

Valuation

The highly-non-regulated (at present) innerwear segment is in a sweet spot to benefit from the GST, and the company is poised to cash in on the opportunity.

We expect revenue to clock a 5.4% CAGR over FY19-21, with a 10.9% EBITDA margin.

Given the sluggish growth and strain on working capital, we change our rating to a Hold, with a revised target of ₹182 (earlier ₹329) valuing the stock at 15x FY21e P/E (earlier 20x).

Risks

- **Volatile raw-material prices.** Any delay or inability of the company to pass on fluctuations in raw-material prices could lead to margins contracting.
- **Changing technology, consumer behaviour.** The innerwear sub-segment is subject to rapid changes in consumer preferences and technology. The inability of the company to respond in a timely manner to such changes would weigh on its performance.
- **Keener competition.** The company operates in a cut-throat milieu against international and domestic brands. Standing out in such a challenging competitive context is essential.

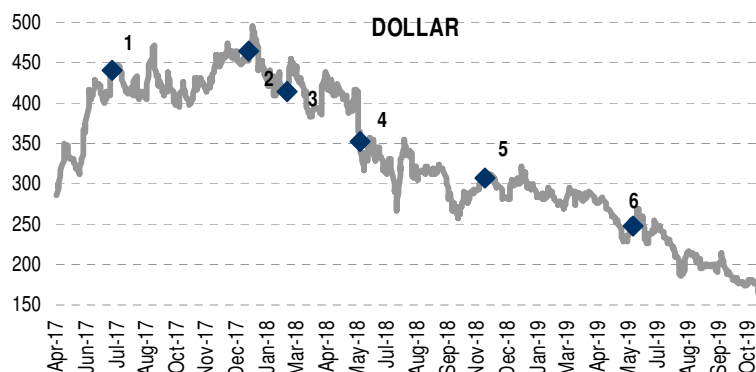
Appendix

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	Date	Rating	TP (₹)	Share Price (₹)
1	06-Jul-17	Buy	529	420
2	06-Jan-18	Hold	537	470
3	23-Feb-18	Buy	545	421
4	02-Jun-18	Hold	416	356
5	13-Nov-18	Hold	384	310
6	29-May-19	Buy	329	258

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