ANANDRATHI

India I Equities

Consumer

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

23 February 2018

Dollar Industries

Rating: **Buy**
Target Price: ₹545
Share Price: ₹421

Bright outlook; upgrading to a Buy

The highly-unregulated (at present) innerwear segment is in a sweet spot to benefit from the GST and Dollar is poised to cash in on the opportunity. The recent ₹1.07bn raised from the promoter helped lower the debt burden. We expect a strong, 36%, earnings CAGR over FY17-20, driven by revenue growth, margin expansion and lower interest cost. We broadly maintain our FY19e and FY20e but upgrade the stock to a Buy chiefly due to the recent drop in its price.

Revenue growth, margin expansion to continue. Q3 FY18 revenue grew 40% y/y chiefly because of better thermal sales and re-stocking after the GST roll-out. In the next couple of years, revenue is expected to grow 15%. Margin expansion stemmed primarily from the better gross margin and higher input-tax credit due to the GST.

Working-capital cycle to be stretched in the near future. In Q3 the working-capital cycle further lengthened, by ~10 days, chiefly due to raw-material stocking and a stretched debtor-payment cycle. The company aims to lower it by 8-10 days by Mar'18 from the present 167. Funds raised from the promoter (₹1.07bn) in Nov'17 were largely used to repay debt (₹1.64bn at end-Q3 FY18.

Outlook. We expect revenue and PAT to clock respectively ~14% and ~36% CAGRs over FY17-20, driven by the better demand scenario and a shift to the formal (or regulated) economy. Also, the EBITDA margin is expected to expand to 13.7% in FY20 (from 10.3% in FY17) due to greater efficiency and a richer product-mix.

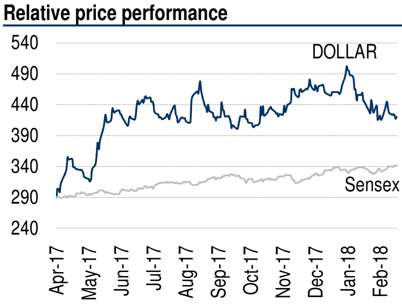
Valuation. We broadly maintain our FY19e/20e earnings. We upgrade the stock, however, from a Hold to a Buy due to a ~12% drop in its price in the last 1.5 months. Our revised target of ₹545 (28x FY20e P/E) has 29% potential. **Risks.** Volatile raw-material prices, changing customer preferences, cut-throat competition.

Key data	DOLLAR IN
52-week high / low	₹515 / ₹263
Sensex / Nifty	34142 / 10491
3-m average volume	$0.2m
Market cap	₹24bn / $368.3m
Shares outstanding	57m

Shareholding pattern (%)	Dec'17	Sep'17	Jun'17
Promoters	56.8	54.9	54.9
- of which, Pledged	-	-	-
Free float	43.2	45.1	45.1
- Foreign institutions	1.8	2.7	3.1
- Domestic institutions	7.7	7.1	6.6
- Public	33.6	35.3	35.4

Estimates revision (%)	FY19e	FY20e
Sales	2.1	1.9
EBITDA	3.6	4.2
EPS	1.0	1.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY16	FY17	FY18e	FY19e	FY20e
Sales (₹ m)	8,217	8,973	9,887	11,408	13,231
Net profit (₹ m)	264	435	672	899	1,103
EPS (₹)	4.9	8.0	11.8	15.8	19.4
PE (x)	86.6	52.5	35.5	26.6	21.6
EV / EBITDA (x)	39.7	28.0	20.1	16.0	13.2
PBV (x)	16.4	13.2	6.9	5.7	4.7
RoE (%)	19.8	26.6	25.5	23.5	23.8
RoCE (%)	11.1	14.4	17.1	18.3	20.2
Dividend yield (%)	0.1	0.2	0.4	0.6	0.7
Net debt /equity (x)	1.5	1.1	0.5	0.2	0.0

Source: Company, Anand Rathi Research

Harsh Thakar

Ashish Poddar
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
Net revenues	8,217	8,973	9,887	11,408	13,231
Growth (%)	*13.5*	*9.2*	*10.2*	*15.4*	*16.0*
Direct costs	3,574	3,916	4,108	4,906	5,676
SG&A	3,985	4,131	4,514	4,951	5,742
EBITDA	**657**	**926**	**1,266**	**1,552**	**1,813**
EBITDA margins (%)	*8.0*	*10.3*	*12.8*	*13.6*	*13.7*
- Depreciation	137	148	153	159	172
Other income	83	86	79	91	106
Interest expenses	194	197	174	122	75
PBT	409	667	1,018	1,362	1,671
Effective tax rate (%)	*35.6*	*34.9*	*34.0*	*34.0*	*34.0*
+ Associates / (minorities)	-	-	-	-	-
Net income	264	435	672	899	1,103
Adjusted income	264	435	672	899	1,103
WANS	54	54	57	57	57
FDEPS (₹ / sh)	4.9	8.0	11.8	15.8	19.4
FDEPS growth (%)	35.5	64.9	47.7	33.8	22.7
Gross margin (%)	56.5	56.4	58.5	57.0	57.1

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	3,454	4,181	5,080
Total debt (incl. pref.)	2,330	2,163	1,713	1,289	789
Minority interest	-	-	-	-	-
DTL / (asset)	41	23	23	23	23
Capital employed	**3,826**	**3,996**	**5,190**	**5,494**	**5,892**
Net tangible assets	837	747	695	686	664
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	5,621	5,923	6,514
Cash	104	97	154	383	650
Current liabilities	1,345	1,322	1,283	1,501	1,939
Working capital	2,879	3,147	4,338	4,422	4,575
Capital deployed	**3,826**	**3,996**	**5,190**	**5,494**	**5,892**
Contingent liabilities	12	18	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
PBT	409	667	1,018	1,362	1,671
+ Non-cash items	137	148	153	159	172
Oper. prof. before WC	546	815	1,171	1,520	1,843
- Incr. / (decr.) in WC	662	269	1,190	84	153
Others incl. taxes	150	250	346	463	568
Operating cash-flow	-266	297	-365	973	1,122
- Capex (tang. + intang.)	124	53	100	150	150
Free cash-flow	-389	244	-465	823	972
Acquisitions					
- Div.(incl. buyback & taxes)	14	65	102	171	205
+ Equity raised	-	-0	1,075	-	-
+ Debt raised	415	-167	-450	-424	-500
- Fin investments	0	3	-	-	-
- Misc. (CFI + CFF)	(1)	15	0	-	-
Net cash-flow	13	-7	57	229	267

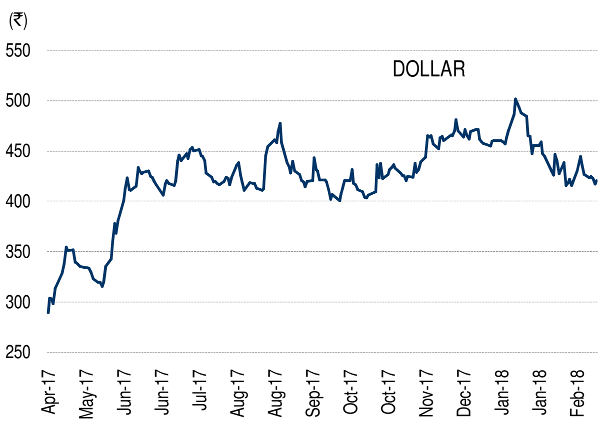
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18e	FY19e	FY20e
P/E (x)	86.6	52.5	35.5	26.6	21.6
EV / EBITDA (x)	39.7	28.0	20.1	16.0	13.2
EV / sales (x)	3.2	2.9	2.6	2.2	1.8
P/B (x)	16.4	13.2	6.9	5.7	4.7
RoE (%)	19.8	26.6	25.5	23.5	23.8
RoCE (%) - after tax	11.1	14.4	17.1	18.3	20.2
Fixed asset T/O (x)	11.4	14.8	17.6	19.3	22.3
DPS (₹ / sh)	0.3	1.0	1.5	2.5	3.0
Dividend yield (%)	0.1	0.2	0.4	0.6	0.7
Div. payout (%) - incl. DDT	4.4	12.5	12.7	15.8	15.4
Net debt / equity (x)	1.5	1.1	0.5	0.2	0.0
Receivables (days)	85	91	98	92	87
Inventory (days)	99	92	101	90	86
Payables (days)	48	42	38	40	47
CFO:PAT%	-100.9	68.2	-54.4	108.3	101.7

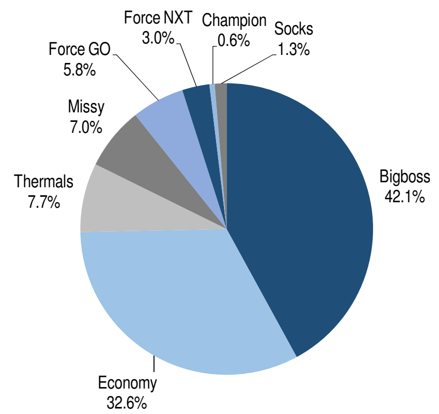
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Brand-wise revenue break-up (9M FY18)



Source: Company, Anand Rathi Research

Company update

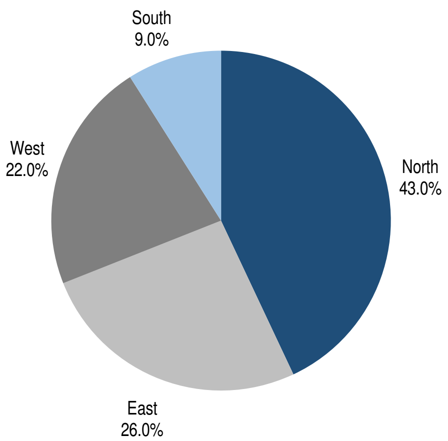
One of the fastest-growing lifestyle knitwear and innerwear companies in India, Dollar Industries operates in the hosiery industry, which is now highly unregulated and fragmented, but moving towards the formal market, which augurs well for the company. It has transformed itself from just another regional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

Revenue growth and margin upswing to continue

For 9M FY18, its revenue grew 14% y/y. In Q3 FY18, revenue grew 40% y/y, mainly due to more sales of thermal products and restocking after initial hiccups of the GST roll-out. On the newer product launches in the premium category, formalisation of economy and vigorous promotions, it may register 15% revenue growth in the next couple of years.

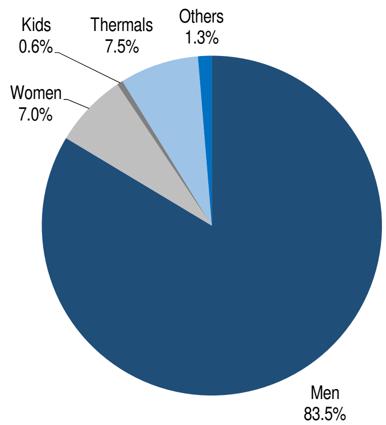
Its strong retail network (890 distributors, ~90,000 MBOs) would help it achieve its revenue growth targets. During 9M FY18, modern retail contributed ~4% to revenue, ~8% came from exports. North India contributed the most to its domestic income (~43%).

Fig 7 – Revenue contribution – region wise – 9M FY18



Source: Company

Fig 8 – Revenue contribution – segment wise - 9M FY18

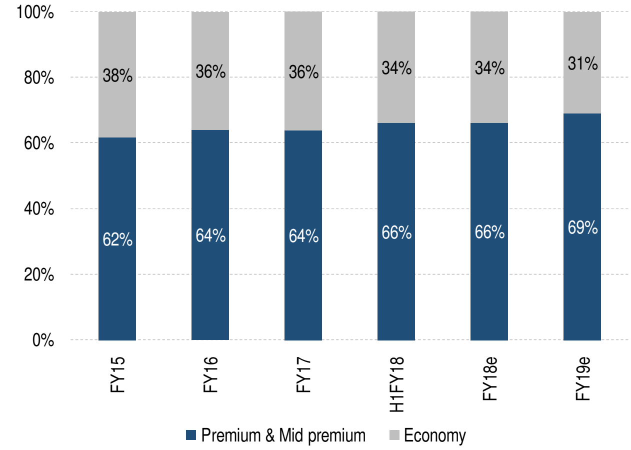


Source: Company

Input tax credit under the GST regime and lower raw material costs helped in the margin expansion. It is also relentless in hiking prices. During 9M FY18, it raised prices ~3%. In Q4 FY18 (January), it raise prices again and, looking at increasing cotton prices, is planning another hike in the quarter. Ahead, with the launch of products in a JV with Pepe Jeans, its product mix is expected to turn richer and more colourful.

The proportions of the premium and mid-premium segments (combined) have been on a continuous rise (66% in 9M FY18 vs. ~64% in FY17). Moreover, products under the JV with Pepe Jeans would enrich the product mix. Management aims at ~15% EBITDA margin in the next two years.

Fig 9 – Increasing shares of premium and mid-premium products



Source: Company

Working-capital cycle to be stretched for some time

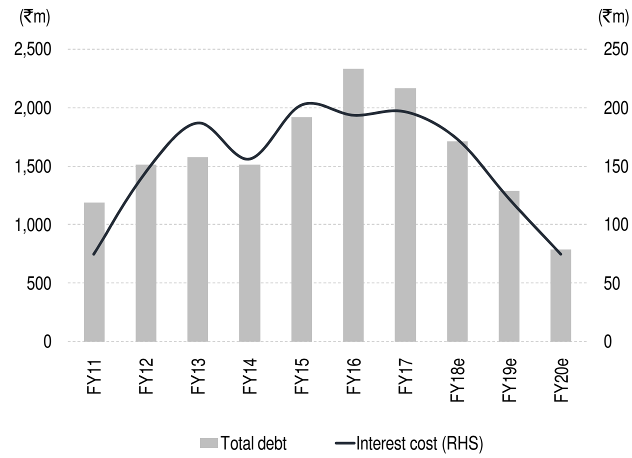
According to the company, its working-capital cycle on 31st Dec'17 was 167 days (up by ~12 days q/q).

The increased working capital was mainly due to a greater portion of raw material in the inventory and a stretched debtor-payment cycle. Looking at increasing raw material prices, the company increased its stock of raw materials, which increased overall inventory levels. Post-implementation of GST, some debtors were facing a liquidity crunch, which resulted in a stretched payment cycle from them. Management hopes to reduce this cycle in Q4 FY18 by 8-10 days.

Equity infusion by the promoter helped reduce debt

Dollar Industries raised ₹1.07bn from the promoter entity (Simplex Impex Pvt. Ltd.) on allotting 2.5m equity shares at ₹430 each. The funds raised were used to reduce debt, which on 31st Dec'17 was ₹1,640m, against ₹2,329m in Sep'17. The company aims to be debt free by end-FY20.

Fig 10 – Debt burden to ease



Source: Company, Anand Rathi Research

JV with Pepe Jeans to enrich the product-mix

In Aug'17, Dollar Industries entered into a 50:50 JV with the Netherlands-based Pepe Jeans, Europe, to manufacture and market in India a premium range of fashion innerwear, loungewear, gymwear, 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.

Pepe Jeans Innerfashions Pvt. Ltd., the JV, is headquartered in Bengaluru with Suresh Nambiar, who has vast experience in policy making and marketing, as CEO. He was earlier associated with HUL, Pepe Jeans and Page Industries.

The JV has started working on designing and sampling products, which are expected to be launched by Jul'18. Investment in this JV would be ₹2,000m (₹720m in equity, the rest through debt). Both the companies have infused the initial part of their capital. Dollar will invest its portion of ₹360m in the next four years (₹90m each). From this JV it expects ₹600m in revenue in FY19 and aims to break even at the EBIDTA and PAT levels within two and four years respectively. It expects an EBITDA margin of at least 15% once economies of scale have arisen (in the fifth or sixth year of operation). We have not factored in the financials of this JV for FY19 and FY20 due to low clarity. Any meaningful loss during this period may impact our earnings expectations.

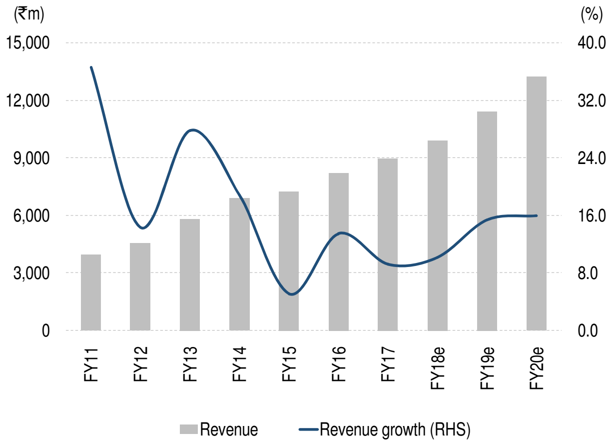
FY18 financial performance so far ...

Fig 11 – Financials

(₹ m)	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	% y/y	% q/q	9M FY17	9M FY18	% y/y
Sales	1,663	2,818	2,394	2,127	2,327	40.0	9.4	6,002	6,849	14.1
EBITDA	172	419	258	291	368	113.6	26.4	594	916	54.2
EBITDA margin (%)	10.3	14.9	10.8	13.7	15.8	545bps	212bps	9.9	13.4	348bps
Interest	39	57	46	46	52	31.9	12.2	141	144	2.1
Depreciation	32	53	29	30	32	(1.1)	7.7	95	91	(4.4)
Other income	0	0	1	10	2	#DIV/0!	(83.8)	5	12	131.8
PBT	101	309	184	225	286	183.8	27.0	364	694	90.7
Tax	40	125	59	76	106	164.3	39.0	107	240	124.1
Tax rate (%)	40	41	32	34	37	-274bps	319bps	29	34.6	516bps
PAT	61	184	125	149	180	196.7	20.9	257	454	76.8

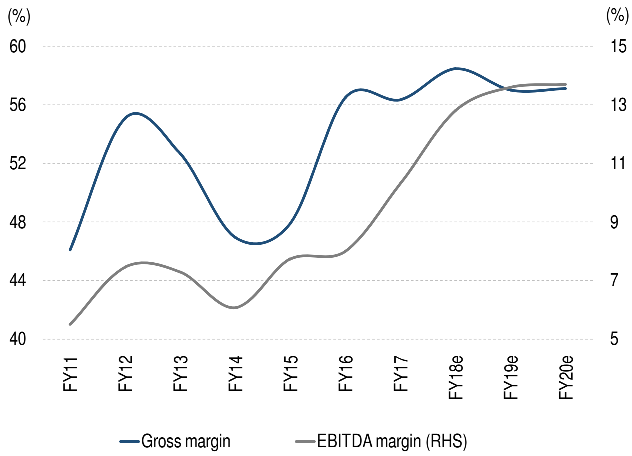
Source: Company, Anand Rathi Research

Fig 12 – Revenue to clock a 14% CAGR over FY17-20



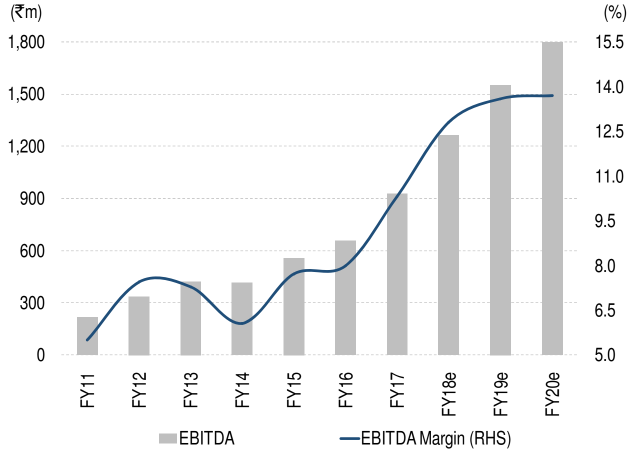
Source: Company, Anand Rathi Research

Fig 13 – Margins on an uptrend



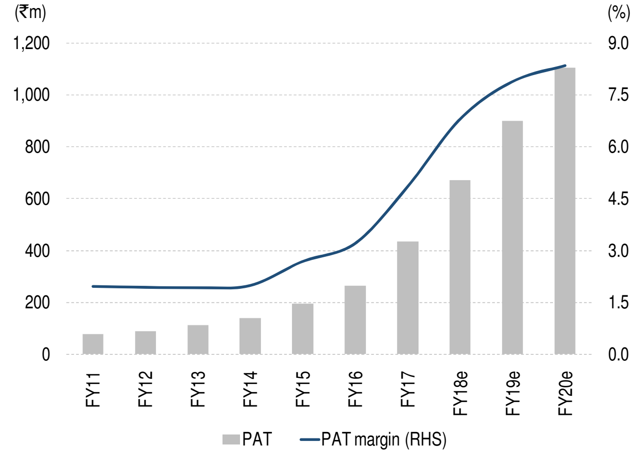
Source: Company, Anand Rathi Research

Fig 14 – Better product mix to improve margins



Source: Company, Anand Rathi Research

Fig 15 – PAT to register a 36% CAGR over FY17-20



Source: Company, Anand Rathi Research

Innerwear market in India

Industry estimates the overall market for innerwear products, constituting ~7.3% of the apparel market, at ~₹240bn in 2015. It 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 expects the market to clock a 14% CAGR over 2015-20.

Fig 16 – 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		
Regulated (or Formal) %		45-50			
Unregulated (or Informal) %		50-55			

Source: Intimate Apparel Association

Competitive pricing and a wide product range

The company has a wide product range covering economic 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 17 – Product price comparison

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

Concall highlights – Q3 FY18

- After initial issues with the GST in H1 FY18, business has settled down. Sales momentum has been seen from Sep'17. E-way bills would be a move towards a formal economy.
- Pepe Jeans Innerfashion Pvt. Ltd. started working on designing and sampling of products that are expected to be marketed by Jul'18.
- Debtors, inventory and payable days were 102, 102 and 37 respectively. Debtor days increased due to the GST roll-out and initial cash crunches at distributor level while inventory days increased due to stocking of raw material. Generally, the proportion of raw material and finished goods in inventory is 45:55, which became 55:45 due to the rising stock of raw material.
- In the quarter, the working-capital cycle increased by 8-10 days from the previous last quarter.
- Debt on 31st Dec'17 was ~₹1,640m (a working-capital loan of ~₹1,520m and ~₹120m long-term debt) Equity infusion by promoters was used to repay debt.
- Selling and promotion expenses for 9M FY18 were ~₹800m. The company has changed accounting for advertising from a cash to an accrual basis.
- In FY18, it may hit a ₹10bn turnover with an EBITDA margin of 13-13.5%. In coming years, management is eyeing 15% sales growth.
- The gross margin and EBITDA margin expansions are sustainable. In the next couple of years, the EBITDA margin may stabilise around 15%.
- The company fully hedges its raw material, ie, cotton.

Change in estimates

We broadly maintain our FY19/20 estimates.

Fig 18 – Estimates revision

(₹ m)	Old estimates		New estimates		Change (%)	
	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Revenue	11,170	12,981	11,408	13,231	2.1%	1.9%
EBITDA	1,497	1,739	1,552	1,813	3.6%	4.2%
PAT	890	1087	899	1103	1.0%	1.5%
EPS	15.7	19.2	15.8	19.4	1.0%	1.5%

Source: Anand Rathi Research

Valuation

The highly-unregulated (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 like its focus on premiumisation and its planned evolution from an innerwear brand to a lifestyle one. It is also focusing on margin expansion by rationalising advertising costs and dealer incentives.

We expect revenues, EBITDA and PAT to clock 14%, 25% and 36% CAGRs respectively over FY17-20.

While we broadly maintain our FY19e and FY20e earnings, we upgrade the stock from a Hold to a Buy due to a ~12% fall in stock price in the last 1.5 months. Our revised target price of ₹545 (28x FY20e P/E) provides 29% potential from current level.

Page Industries, the industry leader, with an FY20e RoE of 43% trades at 49x FY20e P/E. (Source: Bloomberg)

Fig 19 – Peer Comparison

		Market cap	Revenue (₹ bn)		EBITDA margin (%)		RoE (%)	
Company	BB code	(₹ bn)	2016	2017	2016	2017	2016	2017
Dollar	DOLLAR IN	24	8.3	9.0	8.1	10.3	19.8	26.6
Page	PAG IN	254	17.7	21.0	21.1	19.6	50.5	44.5
Rupa	RUPA IN	34	10.1	10.9	13.3	12.8	18.9	17.9
Lux	LUX IN	43	9.4	9.7	10.0	12.3	32.9	29.8

Source: Bloomberg, Company

Risks

- **Volatile raw-material prices.** Any delay or inability of the company to pass on fluctuations in raw-material prices could pare 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 in a timely manner to such changes would dull 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.

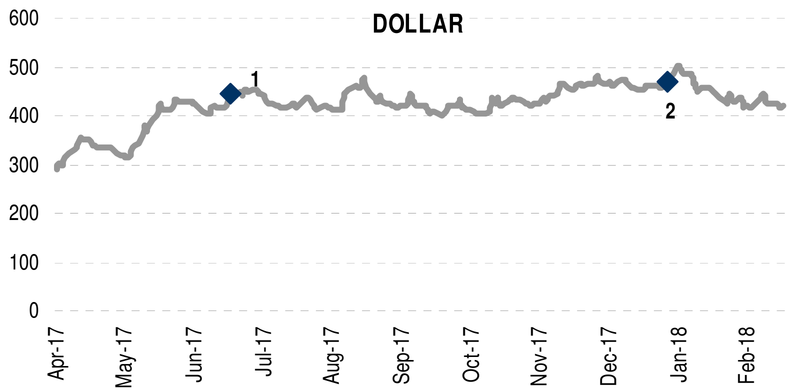
Appendix

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 23 February 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	06-Jul-17	Buy	529	420
2	06-Jan-18	Hold	537	470

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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