

CMP (INR)	462.85
Target (INR)	656.00
Upside(%)	41.73%
Recommendation	Strong Buy

BSE Code	NA
NSE Code	DOLLAR
Reuters Ticker	DOLLau.NS
Bloomberg Ticker	DOLLAR IS

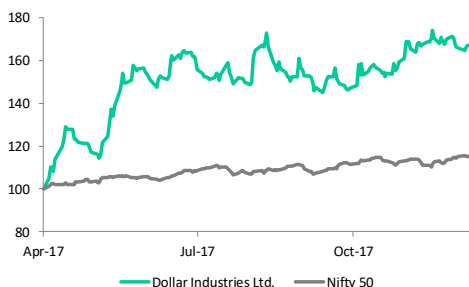
Stock Scan

Market cap (INR Cr.)	2625.10
Outstanding Shares (Cr.)	5.67
Face Value (INR)	2
Dividend Yield(%)	1.08
P/E (x)	24.3
Industry P/E (x)	44.9
Debt/Equity	1.20
Beta vs. Nifty	0.10
52 Week High/ Low (INR)	488.65/ 400.60
Avg. Daily Vol (NSE)/1 Yr	95934

Shareholding Pattern (%)

	Sept-2017	June-2017	Mar-2017
Promoters	54.85	54.86	54.85
Institutions	9.85	9.69	30.45
Non-Institution	35.30	35.45	14.70

Stock vs. Nifty (Relative Returns)



Source: Company Data, SMIFS Research

Research Analyst:

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Company Overview

The journey has started as 'Bhawani Textiles' under the leadership of Shree Dindayal Gupta in 1972 the company rebranded itself as Dollar Industries Ltd in 2008. It began its journey with its signature brand "Dollar" in men's vests and briefs. Now, it has a wide range of men's, women's and kids' innerwear. 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.

Investment Rationale

Dynamic product portfolio:

Dollar captures the whole economic pyramid at a stretch. The major portion of the sales pie is contributed by premium and super-premium segment i.e. 66% while the economy range contributes 34% of the revenue where they are trying to capture the market share of unorganized players suffering from GST and demonetization effect. We expect all the organized players (Lux, Dollar, Rupa etc.) to increase market share due to greater brand recognition in their traditional markets and loss of market...

Rationale Contd...

Valuation: Fittings and quality have always been Dollar's USP and it aims to further enrich its product mix by expanding their portfolio reach and focusing on the super-premium segment. It is targeting 14-15% YoY sales growth organically through sharpening their focus on the super-premium segment with their recent JV with the global brand "Pepe Jeans" and aggressive dealer push in the economical segment along with a possibility of acquisitions. Several macro and micro factors compel us to believe a good visibility of growth in the textile sector. We also believe Dollar is perfectly poised to capitalize the upcoming growth in the textile sector through a series of measures like backward integration, JVs, EBOs etc. which would result in higher topline growth and improved operating margins. We are assigning a P/E multiple of 34.5x for FY19E EPS to arrive at a target price of INR656.

Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	724.1	821.7	897.3	1027.4	1176.4
Growth (%)	5.11%	13.47%	9.20%	14.50%	14.50%
EBITDA	57.1	66.6	93.5	138.7	170.6
EBITDA Margins (%)	7.88%	8.10%	10.42%	13.50%	14.50%
Adjusted PAT	19.5	26.4	43.5	79.9	103.0
PAT Margins (%)	2.69%	3.21%	4.84%	7.78%	8.76%
EPS	5.02	6.81	8.02	14.75	19.01
BVPS	22.0	27.0	33.0	43.2	54.7
P/E (x)	N/A	N/A	N/A	31.2	24.2
P/BV (x)	N/A	N/A	13.7	10.6	8.4
EV/EBITDA (x)	N/A	N/A	27.8	18.8	15.2
ROE (%)	17.57%	19.85%	26.65%	34.13%	34.73%
ROCE (%)	18.50%	17.71%	22.52%	41.07%	44.65%

Source: Company Data, SMIFS Research

Investment Rationale Continued

The company has entered into a 50-50 joint venture partnership with well-known brand 'PEPE Jeans Europe B.V.'

Associated with 850+ distributors and 80,000+ MBOs and also planning to come out with EBOs soon

They are one of the few players in the industry who has their own spinning, knitting, dyeing & bleaching and cutting facilities

...share of the unorganized players. Dollar will grow faster in the premium & super premium segment as the company has entered into a 50-50 joint venture partnership with well-known brand 'PEPE Jeans Europe B.V.' under the name 'PEPE Jeans Innerfashion Pvt. Ltd', for the sale and distribution of innerwear and loungewear which includes gym wear, track suits, and sleepwear. This JV would undertake the business in the different territories of India, Sri Lanka, Bhutan, Nepal, and Bangladesh.

Distributors, MBOs and EBOs:

They are currently associated with 850+ distributors and 80000+ MBOs and also planning to come out with EBOs soon. They are expecting 5% growth in terms of distributors and 10% growth in terms of MBOs YoY basis. Dollar offers higher incentives to distributors to drive sales compared to its immediate peers.

Backward Integration:

The Company has invested in progressive backward integration – from the consumption of raw cotton to final product delivery. The Company has manufacturing units with an environment-friendly infrastructure and also invested in 5-megawatts wind energy at its Dindigul facility to meet the growing demand for renewable energy. Besides, the Company has also invested in a 1000-kilolitre eco-friendly effluent treatment plant which has resulted in 'zero liquid discharge'. They are one of the few players in the industry who are backward integrated with their own spinning, knitting, dyeing & bleaching and cutting facilities with the capacity of 400 tonnes, 300 tonnes and 300 tonnes respectively per month. It also has the Elastic production capacity of 10 lacs meter per month and Cutting capacity of 3 lacs pieces per day.

JV with a global giant:

The Company has entered into a 50:50 JV with "Pepe Jeans" in August 2017, and is expected to launch its products by end of Q4FY18. This partnership requires a capital influx of INR200 Crore with Dollar and PEPE to invest INR36 Crore each over a period of 4 years and the rest to be funded by banks as a working capital loan. In this JV management is guiding for an EBIDTA margin of 18%. This partnership will give its products an exclusive access to Pepe's 350 shop-in-shop, 250 EBO's and more than 1,100+ A rated MBO's across the country apart from traditional channels of Dollar Industries Ltd.

Ad spends to be curtailed:

The company spends a huge chunk of its revenue i.e. 8-10% on advertising which is highest amongst its immediate peers who spend on an average 6-7% of their revenues. However, the Company has decided to restrict their ad spending to approx. INR86 Crore for the coming years (likely to be around 7% of projected FY19 sales).

Presence of women innerwear and outerwear:

Intending to diversify its range from just men's innerwear, the company is focusing on the fast-growing women's innerwear and outerwear category. It has entered the women's category aiming to capture this growing segment.

Investment Rationale Continued

CAGR over 2010-15 and is expected to provide a huge business opportunity. The company sells women's innerwear, leggings, outerwear and slacks under the brand 'Dollar Missy' which has registered a robust 50% CAGR over FY15-17, though on a low base.

The company is expecting a good winter this year which can drive their Q4FY18 revenue and is expected to achieve high YoY growth rate

Seasonality impact on Dollar's revenue:

Q3 is the slowest quarter in terms of revenue growth due to the winter season. However, the company is expecting a good winter this year which can drive their Q4FY18 revenue and is expected to achieve high YoY growth rate, a part of which can be attributed to lower sales last year due to the impact of poor winter.

Geographical presence:

Dollar's operations are spread across India, with the northern region contributing a major chunk of the revenue, followed by eastern, western and southern regions. While North contributes 42.7% of the revenue, East and West contribute 25.95% and 23.21%, respectively; the residual 8.14% comes from South. They are currently looking to expand their reach in the south region by increasing distributor's network.

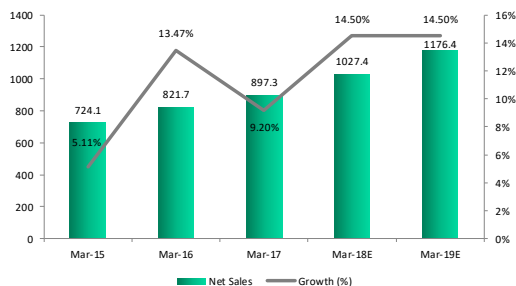
Peer's Comparison

Company Name	Market Cap	Sales	EBITDA	PAT	EBITDAM(%)	PATM(%)
Page Industries	27243.34	2132.06	414.69	266.28	20.59	12.49
Dollar Industries Ltd.	2625.10	897.30	102.11	43.47	11.38	4.84
Lux Industries Ltd.	3842.50	971.56	120.52	62.85	12.40	6.47
Rupa & Company Ltd.	3833.08	1158.65	144.42	77.11	12.46	6.65
VIP Clothing Ltd.	807.38	232.10	16.76	-5.80	7.22	-2.50

All figures in INR crore

Company Name	ROE(%)	D/E(x)	P/BV (x)	TTM PE (x)	EV / TTM EBIDTA (x)
Page Industries	44.54	0.13	24.53	61.32	37.35
Dollar Industries Ltd.	26.65	1.20	11.98	48.18	23.50
Lux Industries Ltd.	29.92	0.81	14.03	60.88	31.86
Rupa & Company Ltd.	19.06	0.19	8.69	54.42	29.44
VIP Clothing Ltd.	-6.41	0.97	3.17	0.00	48.73

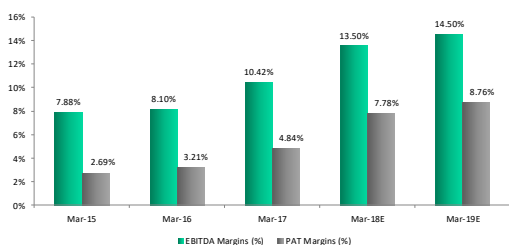
Net Sales Vs Growth (%)



Industry Outlook:

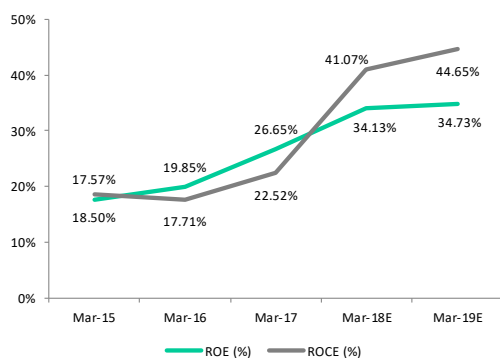
India still remains one of the few fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF). As per the Economic Survey 2016-17, Indian economy is expected to grow between 6.75% to 7.5% FY18-19. The Indian textiles industry, currently estimated at around INR6804 billion, is expected to reach INR14495 billion by 2021. The industry is the second largest employer, after agriculture, providing employment to over 45 million people directly and 60 million people indirectly. The Indian Textile Industry contributes approximately, 5% to GDP, and 14% to overall IIP. The growth implies domestic sales to rise to INR19845 billion from currently INR4284 billion. At the same time, exports are implied to increase to INR11840 billion from approximately, INR2583 billion currently.

EBITDA Margins (%) Vs PAT Margins (%)



On the cusp of rapid growth per capita inner wear expenditure expected to double to INR300 which will push the innerwear market to INR47000 Crore from INR24000 Crore. Out of the organized innerwear market, listed players Page, Dollar, Lux, Rupa, and VIP hold only 22% that is INR5367.3 Crore which means 78% market is still open to grab. Due to demonetization and GST, lots of unorganized players suffered a lot and they need to ramp up their infrastructure to comply with the new indirect tax system. This is the sweet spot where every organized players will get benefited.

ROE (%) Vs ROCE (%)

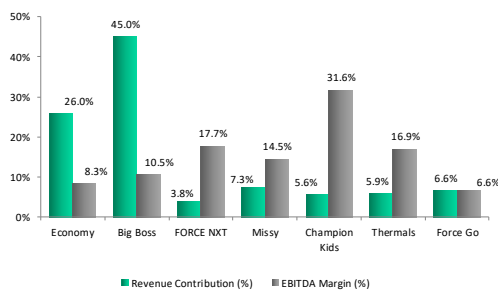


Company Outlook:

In the domestic market there are three players Dollar Ind, Lux and Rupa & co are vouching to capture a pie of the premium segment. Rupa acquired a license from "Fruit of the Loom" a wholly owned subsidiary of Berkshire Hathaway to manufacture, distribute, advertise and sell innerwear and outerwear products of fruit of the loom. However, we believe that this will not help them to improve their margins. But in case of Dollar Ind, they made a smart move through a JV with "Pepe Jeans" which will give them a profit sharing opportunity as well as direct access to the 250+ EBOs of "Pepe Jeans" while keeping their original brand name as well as their existing premium products intact.

If we compare this above-mentioned player's as per their sales in terms of distributor's and MBOs metrics, Dollar is much more efficient than other two and they are also planning to come out with their own EBOs which justifies their expectation of doubling their revenue by FY23.

Segment wise Revenue Vs EBITDAM (%)



Source: Company Data, SMIFS Research

Key Risks

Volatile raw material prices: Any ineptitude of the company to pass on the fluctuation in raw material prices could impact margins.

Portfolio mismatch with consumer behavior: 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.

Head-to-head competition: The Company operates in a highly fragmented market which involves the presence of strong international and domestic brands. Standing out in such a competitive environment in terms of price and volume is essential.

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Sell	0 to <-10%
Neutral	No Rating

Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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