

## Dollar Industries

13 February, 2019

### High base and aggressive marketing push impact earnings

#### RESULT UPDATE

**Sector:** Apparel **Rating:** Buy  
**CMP:** Rs288 **Target Price:**Rs386

#### Stock Info

Sensex/Nifty	37,645/ 11,356
Bloomberg	DOLLAR IN
Equity shares (mn)	56.7
52-wk High/Low	Rs380/248
Face value	Rs 2
M-Cap	Rs18bn/\$0.3bn
3-m Avg value	US\$ 0.2mn

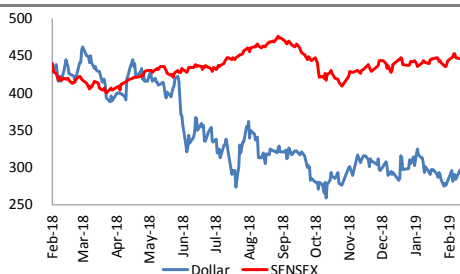
#### Financial Snapshot (Rs mn)

Y/E Mar	FY19e	FY20e	FY21e
Sales	10,358	11,604	13,005
PAT	702	801	952
EPS (Rs)	12.4	14.1	16.8
PE (x)	23.3	20.4	17.2
EV/EBITDA (x)	13.1	11.3	9.7
P/BV (x)	3.8	3.3	2.8
EV/Sales	1.7	1.5	1.3
RoE (%)	18.6	18.0	18.2
RoCE (%)	22.7	23.3	24.0
NWC (days)	170	165	162
Net gearing (x)	0.3	0.2	0.1

#### Shareholding pattern (%)

	Dec 18	Sep 18	Jun 18
Promoter	57.3	57.0	56.8
-Pledged	-	-	-
FII	0.4	0.4	0.6
DII	8.1	8.1	8.4
Others	34.3	34.5	34.2

#### Stock Performance (1-year)



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Dollar Industries (DOLLAR) delivered a muted quarter with revenue/EBITDA/PAT growth of 9.8%/0.1%/7.5% respectively, mainly due to a high base. Revenue came in at Rs2.4bn, up 10% yoy, given a 3% volume growth and 7% mix/pricing improvement as thermal segment saw a strong growth of 40%. Gross margin improved by 280bps yoy to 41% on account of a better product mix while EBITDA margin declined by 140bps yoy to 15.1% given a combination of higher employee expenses and a sharp increase in advertisement expenses (Rs90mn) and consumer promotions (Rs60mn). DOLLAR started the pilot run of its new distribution model in February in South Bangalore, with an aim to expand direct distribution, retail base and reduce working capital. The pilot run is expected to be over by March-end, post which the company plans to implement it pan-India once clear benefits emerge. The management retained its guidance of 15% revenue CAGR till FY23 and 13.5-14% margins in FY20. We cut the PAT estimates by 4%/8% in FY19/20 to factor the lower growth and margin assumptions. We introduce FY21 estimates and reiterate a Buy rating with a revised target price of Rs386 (earlier Rs444) based on 25x (29x earlier) 1HFY21e earnings. The reduction in multiple reflects a slower growth, lower return ratios and risks of disruption due to the upcoming distribution revamp. Although the stock has been underperforming for a while, we expect re-rating to start once we see significant progress on the working capital reduction and distribution revamp plans which start flowing through to drive better financials.

**10% yoy revenue growth on top of 35% growth in base quarter:** DOLLAR reported a 10% yoy revenue growth led by a 3% volume growth, which looks optically low due to a strong 35% growth in 3QFY18. Thermals (23% of sales) and Missy (8% of sales) had a strong quarter growing 40% and 19% respectively, benefiting from a strong winter and appointment of a new brand ambassador respectively. Value/mix growth of 7% was led by a strong product mix in favour of high-value thermal products. We expect the company to end FY19e with a 12% growth led by the success in Missy and winter brands and a steady performance from Big Boss. The premium brand Force Nxt is undergoing a strategy revamp and will take 3-4 more quarters to start growing. Pepe JV has seen a strong initial response in the three South Indian metros with 37 designs across men's innerwear and athleisure. The new distribution model aimed to expand retail touch points is also expected to boost growth, though we retain expectations of a 12% revenue CAGR over FY19e-21e, lower than the guidance of ~15% CAGR.

**Margins down 140bps at 15.1% given high advertisement and consumer promotions:** An improvement in the product range coupled with the execution of timely price hikes and a strong performance from winter products led to a 280bps gross margin improvement. However the Rs150mn increase in advertisements (new campaign for briefs with actor Akshay Kumar costing Rs90mn) and consumer promotions (more schemes to push non-winter products costing Rs60mn) impacted EBITDA margin by 140bps. Adspends will now overshoot the FY19 budget as the cricket season starts earlier in 2019. Overall, we expect a 25bps annual improvement in margins given an improving mix and better A&P leverage.

**Working capital to see 5-day annual improvement:** On the working capital front, a 4-5 day annual improvement is expected, which will control debt levels from rising further and help in scaling up the business. The company is targeting to focus more on reducing its receivables while inventory levels which went up on athleisure entry should also normalise going forward. It also expects a working capital reduction as it gradually moves to a direct distribution model. A FCF generation of Rs1.3bn over the next two years will help to increase RoCE from 22.7% in FY19e to 24% in FY21e.

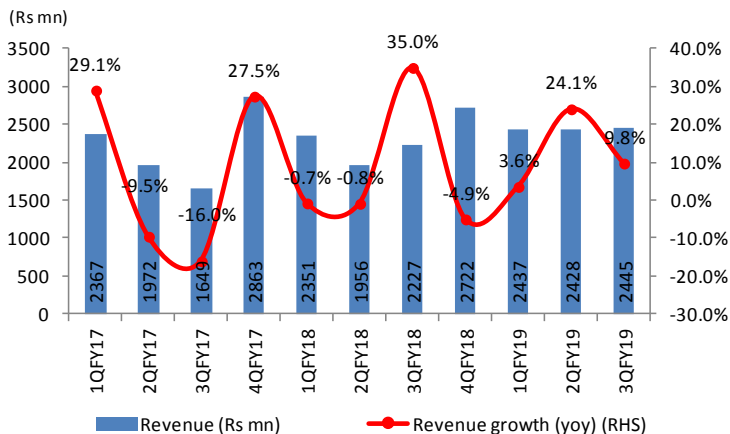
**Distribution and positioning of brands to get stronger:** The company aims to leverage the brand equity it has built in its key brand Big Boss by trying to shift focus towards secondary sales from primary sales earlier. Its premium portfolio is expected to keep growing faster led by a distribution ramp-up coupled with better products/designs and aided by the launch of high-margin athleisure products.

**Exhibit 1: Quarterly performance**

<b>YE March (Rs mn)</b>	<b>3Q FY19</b>	<b>3Q FY18</b>	<b>2Q FY19</b>	<b>y-y (%)</b>	<b>q-q (%)</b>
Net sales	2,445	2,227	2,428		
<b>Net Revenues</b>	<b>2,445</b>	<b>2,227</b>	<b>2,428</b>	<b>9.8</b>	<b>0.7</b>
Cost of materials	975	894	954	9.1	2.2
(% of sales)	39.9	40.1	39.3		
Employee cost	85	68	85	25.5	0.2
(% of sales)	3.5	3.0	3.5		
Subcontracting expenses	468	482	575	(3.0)	(18.6)
(% of sales)	19.1	21.7	23.7		
Others	549	415	452	32.4	21.5
(% of sales)	22.5	18.6	18.6		
<b>EBITDA</b>	<b>368</b>	<b>368</b>	<b>362</b>	<b>0.1</b>	<b>1.7</b>
<b>EBITDA margin (%)</b>	<b>15.1</b>	<b>16.5</b>	<b>14.9</b>		
Other income	11	2	2	603.8	449.0
<b>PBIDT</b>	<b>379</b>	<b>369</b>	<b>364</b>	<b>2.7</b>	<b>4.2</b>
Depreciation	31	32	27	(3.1)	14.4
Interest	39	52	35	(24.6)	11.1
<b>PBT</b>	<b>309</b>	<b>286</b>	<b>302</b>	<b>8.2</b>	<b>2.5</b>
Tax	116	106	107	9.4	8.4
ETR (%)	37.4	37.0	35.3		
<b>Adjusted PAT</b>	<b>194</b>	<b>180</b>	<b>195</b>	<b>7.5</b>	<b>(0.8)</b>
PATAMI margin	7.9	8.1	8.0		
Extraordinary income/ (exp.)	0	0	0		
<b>Reported PAT</b>	<b>194</b>	<b>180</b>	<b>195</b>	<b>7.5</b>	<b>(0.8)</b>
No. of shares (mn)	56.7	56.7	56.7		
<b>Adj EPS (Rs)</b>	<b>3.4</b>	<b>3.2</b>	<b>3.4</b>		

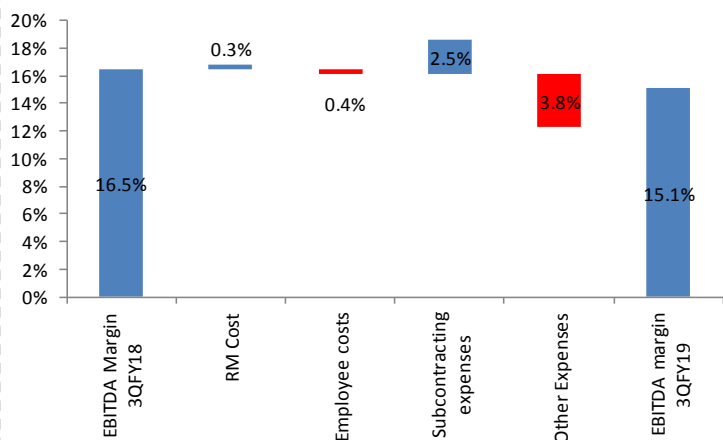
Source: Company, Systematix Institutional Research

**Exhibit 2: Revenue growth of 9.8% given a high base**



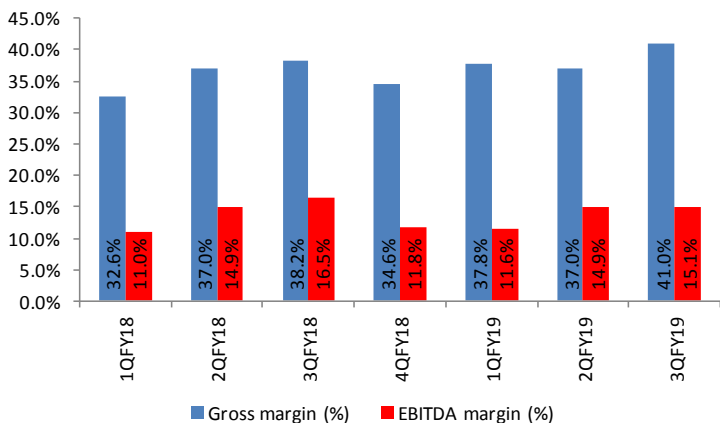
Source: Company, Systematix Institutional Research

**Exhibit 3: EBITDA bridge – high other expenses impact margins**



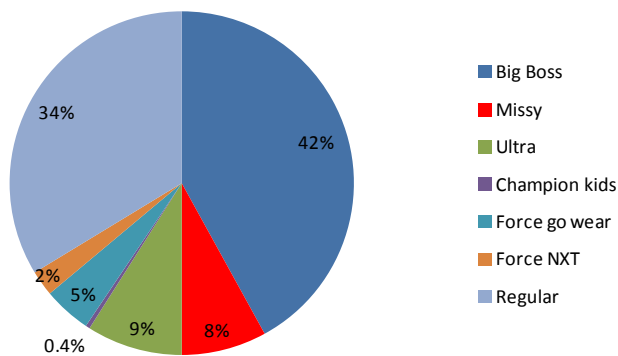
Source: Company, Systematix Institutional Research

**Exhibit 4: Strong improvement in gross margin**



Source: Company, Systematix Institutional Research

**Exhibit 5: 9M mix – strong contribution from Missy and Ultra**



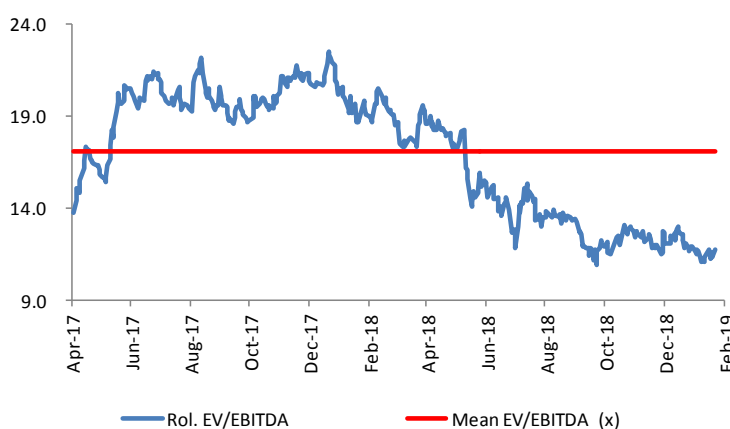
Source: Company, Systematix Institutional Research

**Exhibit 6: Currently trading at 19.2x one-yr fwd P/E**



Source: Bloomberg, Systematix Institutional Research

**Exhibit 7: And 10.9x one-yr fwd EV/EBITDA**



Source: Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19e	FY20e	FY21e
<b>Net Sales</b>	<b>8,861</b>	<b>9,255</b>	<b>10,358</b>	<b>11,604</b>	<b>13,005</b>
RM/inventories	3,916	4,059	4,171	4,637	5,159
Purchase of trading goods	-	-	-	-	-
<b>Gross Profits</b>	<b>4,945</b>	<b>5,196</b>	<b>6,187</b>	<b>6,967</b>	<b>7,846</b>
Employee costs	218	264	280	313	351
Selling & Admin costs	3,728	3,693	4,557	5,106	5,722
<b>Total Expenses</b>	<b>7,862</b>	<b>8,017</b>	<b>9,008</b>	<b>10,056</b>	<b>11,233</b>
<b>EBITDA</b>	<b>999</b>	<b>1,238</b>	<b>1,350</b>	<b>1,548</b>	<b>1,772</b>
Depreciation	148	122	117	136	144
Other income	14	20	25	28	30
<b>EBIT</b>	<b>866</b>	<b>1,137</b>	<b>1,258</b>	<b>1,439</b>	<b>1,658</b>
Interest cost	198	179	146	187	187
<b>PBT</b>	<b>668</b>	<b>958</b>	<b>1,112</b>	<b>1,252</b>	<b>1,471</b>
Taxes	233	318	400	451	530
JV/associate income	-	(4)	(10)	-	10
<b>Adj. PAT</b>	<b>435</b>	<b>636</b>	<b>702</b>	<b>801</b>	<b>952</b>
<b>Reported PAT</b>	<b>435</b>	<b>636</b>	<b>702</b>	<b>801</b>	<b>952</b>
No. of shares (mn)	54	57	57	57	57
<b>Adj. EPS</b>	<b>7.7</b>	<b>11.2</b>	<b>12.4</b>	<b>14.1</b>	<b>16.8</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19e	FY20e	FY21e
<b>PBT</b>	<b>667</b>	<b>958</b>	<b>1,112</b>	<b>1,252</b>	<b>1,471</b>
Add: Depreciation	148	122	117	136	144
Add: Interest	195	179	146	187	187
Less: taxes paid	(213)	(339)	(400)	(451)	(530)
Add: other adjustments	7	-	-	-	-
Less: WC changes	(540)	(1,198)	(390)	(378)	(477)
<b>Total OCF</b>	<b>264</b>	<b>(278)</b>	<b>585</b>	<b>747</b>	<b>795</b>
OCF w/o WC changes	804	920	975	1,125	1,273
Capital expenditure	(61)	(79)	(100)	(100)	(100)
Change in investments	3	31	50	50	50
Interest/Dividend reced.	2	-	-	-	-
<b>Total ICF</b>	<b>(56)</b>	<b>(48)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
Free Cash Flows	203	(357)	485	647	695
Share issuances	-	5	-	-	-
Change in borrowings	(4)	(250)	-	-	-
Dividends	(12)	(95)	(113)	(141)	(141)
Interest payment	(197)	(179)	(146)	(187)	(187)
Others	-	940	(142)	(144)	(147)
<b>Total Financing CF</b>	<b>(213)</b>	<b>422</b>	<b>(401)</b>	<b>(472)</b>	<b>(474)</b>
<b>Net change in cash</b>	<b>(5)</b>	<b>96</b>	<b>134</b>	<b>225</b>	<b>271</b>
Opening cash & CE	104	100	196	340	585
Closing cash & CE	100	196	340	585	886

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19e	FY20e	FY21e
Equity capital	108	113	113	113	113
Reserves and surplus	1,767	3,410	3,999	4,660	5,471
<b>Net worth</b>	<b>1,875</b>	<b>3,524</b>	<b>4,112</b>	<b>4,773</b>	<b>5,584</b>
<b>Total Debt</b>	<b>1,950</b>	<b>1,700</b>	<b>1,700</b>	<b>1,700</b>	<b>1,700</b>
Other LT liabilities	19	22	25	27	30
<b>Total sources</b>	<b>3,843</b>	<b>5,246</b>	<b>5,837</b>	<b>6,500</b>	<b>7,314</b>
Net Block	748	684	667	631	586
Net deferred tax	(24)	(4)	(4)	(4)	(4)
Other assets	141	243	267	294	323
CWIP	0	21	21	21	21
Investments	3.0	33.6	83.6	133.6	183.6
<b>Cash</b>	<b>100</b>	<b>196</b>	<b>340</b>	<b>585</b>	<b>886</b>
Inventories	2,049	2,829	2,980	3,179	3,492
Receivables	2,267	2,717	2,895	3,147	3,385
Loans & Advances	6	7	7	8	9
<b>Current Assets</b>	<b>4,322</b>	<b>5,553</b>	<b>5,881</b>	<b>6,335</b>	<b>6,885</b>
Creditors	953	1,127	1,050	1,081	1,105
Other CL	495	354	370	414	464
<b>Current Liabilities</b>	<b>1,448</b>	<b>1,481</b>	<b>1,420</b>	<b>1,495</b>	<b>1,568</b>
<b>Net Working Capital</b>	<b>2,874</b>	<b>4,072</b>	<b>4,462</b>	<b>4,840</b>	<b>5,317</b>
<b>Total Uses</b>	<b>3,843</b>	<b>5,246</b>	<b>5,837</b>	<b>6,500</b>	<b>7,314</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY17	FY18	FY19e	FY20e	FY21e
Yoy growth in Revenue	7.8	4.4	11.9	12.0	12.1
Yoy growth in EBITDA	52.0	23.9	9.0	14.7	14.5
Yoy growth in Net income	65.1	46.2	10.3	14.2	18.8
Effective tax rate	37.4	35.4	36.0	36.0	36.0
EBITDA margin	11.3	13.4	13.0	13.3	13.6
PAT margin	4.9	6.9	6.8	6.9	7.3
ROACE (pre-tax)	23.4	25.0	22.7	23.3	24.0
ROAE	26.1	23.7	18.6	18.0	18.2
Net debt to equity (x)	1.0	0.4	0.3	0.2	0.1
Inventory days	84	112	105	100	98
Receivable days	93	107	102	99	95
Payable days	39	44	37	34	31
NWC days	139	174	170	165	162
<b>Per share numbers (Rs)</b>					
Reported earnings	7.7	11.3	12.6	14.1	16.6
Dividend	1.0	1.4	1.7	2.1	2.1
Free cash	3.8	(6.3)	8.6	11.4	12.3
Book Value	34.7	65.3	76.2	88.4	103.4
<b>Valuations (x)</b>					
Price to diluted earnings	37.5	25.7	23.3	20.4	17.2
EV / EBITDA	17.4	14.4	13.1	11.3	9.7
Price to sales	1.8	1.8	1.6	1.4	1.3

Source: Company, Systematix Institutional Research

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## DISCLOSURES/ APPENDIX

## I. ANALYST CERTIFICATION

I, **Himanshu Nayyar, Poorvi Khandelwal**, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report, (2) No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited** or its Group/associates companies. (3) has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
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Served as an officer, director or employee	No

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**BUY (B):** The stock's total return is expected to exceed 20% over the next 12 months.

**ACCUMULATE (A):** The stock's total return is expected to be within 10-20% over the next 12 months.

**HOLD (H):** The stock's total return is expected to be within 0-10% over the next 12 months.

**SELL (S):** The stock's total return is expected to give negative returns over the next 12 months.

**NOT RATED (NR):** The analyst has no recommendation on the stock under review.

## INDUSTRY VIEWS

**ATTRACTIVE (AT):** Fundamentals/Valuations of the sector are expected to be attractive over the next 12-18 months.

**NEUTRAL (NL):** Fundamentals/Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

**CAUTIOUS (CS):** Fundamentals/Valuations of the sector are expected to deteriorate over the next 12-18 months.

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