



“Dollar Industries Limited Q1 FY 23 Earnings Conference Call”

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DOLLAR INDUSTRIES LIMITED**

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LIMITED**

MODERATOR: **MS. SHREYA BAHETI – ANAND RATHI SHARE AND
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Moderator:

Good day, ladies and gentlemen, and a very warm welcome to the Dollar Industries Limited Earnings Conference Call hosted by Anand Rathi Share and Stock Brokers. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shreya Baheti from Anand Rathi Share and Stock Brokers. Thank you, and over to you, Shreya.

Shreya Baheti:

Thank you, Ali. Good morning, everyone. On behalf of Anand Rathi, I welcome you all for Q1 conference call for Dollar Industries. From the management side, we have Mr. Ankit Gupta, President, Marketing; and Mr. Ajay Patodia, CFO. We will start with opening remarks from the management and then go forward with the Q&A session. Over to you, sir.

Ankit Gupta:

Thank you, Shreya. Good morning, ladies and gentlemen. On behalf of the entire management team at Dollar Industries, I welcome you all to the first quarter FY'23 post-results conference call. We have continued on our growth path and the tone set in the previous year for growing our revenue, growing distributors under our Project Lakshya, expanding our channel financing scheme to the distributor and increasing our EBOs.

The company has given robust performance in terms of revenue as well as volume growth. Our total revenue has shown a growth of 77.13% year-on-year, led by volume growth of 54% year-on-year. Our EBITDA has shown a growth of 9.71% in comparison to the same quarter last year, but EBITDA margin has declined on account of increase in the advertisement expenditure as well as the fluctuation in the raw material prices, which is still very dynamic.

In current quarter, we have spent around INR 35 crore on advertisement, whereas it was INR 14.65 crore in the same quarter last year. This expenditure was mainly sponsoring IPL 2022, launching of our new TVC for Dollar Woman and the campaign for completion of 50 glorious years of Dollar Industries Limited. We are sure that this advertisement expenditure will give us the future benefit and mileage over next 3 to 4 quarters. This is a large onetime expense and is non-recurring in forward quarters. For the FY'23, we are maintaining the target of our advertisement expenditure at around 5%, 5.5% of our total revenue. Our domestic sales showed a growth of 81%, while export sales was 36% and modern trade e-commerce sales showed a growth of 112% on a year-on-year basis.

Apart from our flagship brand, Dollar Man and Dollar Always, we have seen a good traction towards our Dollar Woman brand and premium brand Force NXT. And both the brands have given a good growth in terms of volume. Force NXT has given a volume growth of 95%, whereas Dollar Woman has given a growth of around 65%.

During the quarter, the number of distributors under Project Lakshya increased to 174 versus 142 as on 31 March, '22. This means we added around 32 distributors in a single quarter. We have also started rolling out this project in the state of Orissa and Bihar.

Our efforts towards channel financing scheme for our dealers continue to see a good traction. We have received positive response of 250 dealers, out of which 160 dealers are already onboard, and the others will be onboarded within a short span of time. We expect to onboard several more distributors every quarter, and we'll continue to improve our receivable and overall working capital requirement.

This particular quarter, our debtor days reduced by 1 day, which was 99 on 31st March, stands at around 98 days after the completion of the first quarter. On our EBO front, we have launched 2 new EBOs during the quarter: one in Tilak Nagar, Delhi; and the other one in Alwar, Rajasthan. We are aiming to add 25-plus EBOs during the year.

Thank you all. Now I want to hand over the call to our CFO, Mr. Ajay Patodia, to highlight the company's financials.

Ajay Patodia:

Thank you, Ankit ji. Good morning to everyone. The company had posted robust performance for the quarter 1 FY'23, led by the accelerated demand across categories. Our revenue for the quarter stood at INR 363.99 crore as against INR 205.49 crore, registering a growth of 77% compared to the same period last year. The growth was led by strong demand across our product portfolio and increased share of value-added products.

Our EBITDA for the quarter stood at INR 39.77 crore, registering a growth of 9.7% as compared to INR 36.25 crore during the same period last year. Our quarterly profit before tax, which stood at INR 32.53 crore, saw a growth of 5% as compared to INR 31.05 crore for quarter 1 FY'22.

Profit after tax for quarter 1 FY'23 stand at INR 27.87 crore. Further, we have seen a growth of 20.60% in our PAT as compared to last year same period. PAT margin for quarter 1 FY'23 stood at 7.66% as compared to 11.25% in Q1 FY'22. Now moving on to the brand-wise contribution for quarter 1 FY'23. Our Big Boss brand contributed

around 46%; Missy, around 9%; our regular brand, Dollar Always, contributed around 39%; and Dollar Socks, around 1.5%; and our premium brand, around 3.5%.

I now open the forum for question and answer.

- Moderator:** The first question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** Sir, a couple of things. So since our margins have been lower in Q1 because of higher advertisement and higher raw material costs, so given this fact, what kind of full year margins you are targeting now in this year versus your earlier guidance of around 17%?
- Ankit Gupta:** Ankit, the thing is that with regards to EBITDA margin, our initial guidance was somewhere around 16.5%, 17%. We still aspire to be there on a yearly basis. But the market has been so dynamic, and there has been a lot of fluctuations in terms of cotton prices and the yarn prices. Plus, in the first quarter, we advertised a lot, due to which the margins are looking a bit on the lower side. So we aspire to be there on a yearly basis. We still are, but we don't really want to comment on that right now as a guidance because the things are really very dynamic right now. Although the demand side is pretty good, there's a consumer demand in the market, no doubt in that. But with regards to the raw material prices, it's very fluctuating right now because we saw a dip in the cotton prices, but again, it rose by some amount in last 5, 10 days. So it would be very hard if I give a guidance on it, but yes, we really aspire to be at 16.5%, 17%.
- Ankit Babel:** Okay. And in Q1, you have already done INR 35 crore of advertising. So in absolute terms, what is your target for this full year in advertising?
- Ankit Gupta:** Well, as I told, like it should be somewhere around 5.5% on a yearly basis, somewhere around that only, which would amount to somewhere around INR 75 crore to INR 80 crore.
- Ankit Babel:** Okay. And this advertisement, you believe, is now at peak and next year, I mean it will be in the range of INR 60 crore, INR 70 crore or you believe that it will increase from here on?
- Ankit Gupta:** So as a percentage of sales, we'll try to maintain somewhere around 5%, 5.5%, not below that.
- Ankit Babel:** Okay. And lastly, your working capital has been increasing. I understand there is a 1-day improvement in debtor days, but the inventory is increasing, that also I understand because of seasonality. But are we on track on a yearly basis to bring down the working capital around 15 days on a yearly basis?
- Ankit Gupta:** So this year's target, what we have said is the 10 days reduction in the working capital cycle overall this particular fiscal, and we are on track. This is just the seasonality and due to the higher stocking up of raw material in the earlier days, due to which our overall inventory days still is a bit high. Initially, our working capital days as on March was 109 days, which is currently at 122 days. So this increase is just seasonally an increase. The thermal sale will start happening from the month of September onwards. So there will be a decline in the inventory days going ahead.
- Ankit Babel:** Okay. And just last one small clarification. So just out of this INR 35 crore, how much was onetime expenditure in advertising, which you believe is non-recurring?
- Ajay Patodia:** Ankit, this is Ajay Patodia. Basically, our advertisement budget is for the quarter 1 and quarter 3 only, mainly in our industry. Basically advertisement budget is especially less in quarter 2 and quarter 4. So it is not a onetime type of call. But since IPL this season is onetime in this year, next year, we repeat again. And in this quarter, mainly electronic media advertisement is mainly doing so that the expense is looking more with respect to total budget.
- Ankit Babel:** Okay. And sir, have you taken any price hikes recently? Or are you planning to take any price hike? Because we have high-cost inventory.

- Ajay Patodia:** We already take the price hike in the 1st week of April. We have fluctuation in the cotton pricing and yarn prices. We don't think another price hike will need to be taken in the 1st week of July. But due to price hike in April, we already get our gross margin increased by 1.5% from last quarter, March quarter. Yes. So in the coming future, it will depend only on the movement of the raw material cost, actually.
- Ankit Babel:** No, I understand. Why I was asking because you would be having some high-cost inventories. So can it impact your gross margins in Q2?
- Ajay Patodia:** No. Because basically, in a thermal year, our winter-wear products, the product margin level is more than the normal.
- Ankit Gupta:** There will be no such decline that we see in the gross margin levels in Q2.
- Moderator:** The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna:** Congratulations for the good growth that has been achieved during this quarter. Yes, we have certain disappointment in terms of margins, but as you highlighted, that it is purely because of some IPL-related advertisement expenses, which was almost INR 20 crore higher year-on-year. So if we try to adjust that, hopefully, we have achieved the margins that we have guided around 17%. So now if we go into next 3 quarters and if we go by the run rate of, let's say, INR 15 crore kind of run rate every quarter, hopefully, second quarter will show us the new margins, which probably the analyst communities are expecting.
- But on the growth front, since the first quarter, we have almost seen 77% kind of growth on the top line, and the remaining 3 quarters where we have some seasonal advantage in terms of winter-wear, which is going to come up in second and third quarter. So can you guide something like 20%-plus growth is achievable during this financial year? And if so, then if you could just guide which segments we are seeing could drive this sort of growth because we have added a lot of other varieties in our bucket, like this Woman's and a lot of other segments which have been added in the recent past. So if you could broadly guide us some contours that how this growth is going to be achieved in this year will be really helpful.
- Ankit Gupta:** Thank you, Bajrang ji, for your question. See, overall, on a yearly basis, we stand at 15% to 17% kind of a revenue growth. That would be the guidance we would like to give. Apart from that, the categories that are doing really well is the premium segment Force NXT and Dollar Woman is also doing really good. We are getting a very good feedback for the Brassiere segment also, which we launched in the month of April. And we just launched in 3 states currently, Uttar Pradesh, Bihar and Jharkhand. These 3 states have been given the product, and the market feedback is really good with respect to the product quality and the pricing that we have done.
- Apart from that, the newer categories that we are going to add in the fourth quarter by, let's say, in the month of February, by the end of this fiscal, we are going to add the active wear and Dollar Woman athleisure. So these are the 2 product categories which was not there earlier. And Dollar Woman athleisure was there, but investment based. So now the full range of Dollar Woman athleisure will also come into the market. We will be launching in the month of February or so.
- And we are going ahead with the active wear also, which is now on the trend. People are getting more health-conscious and going to the gym. And they prefer Dri-FIT material over a pure cotton kind of a material. Today's youth wants that particular product. So that's what our research says, and that's why we are going ahead with those categories as well. So these are the product developments that we are coming forward with. Apart from that, yes, on an overall growth level, we would be somewhere around 15%, 17%.
- Bajrang Bafna:** Okay. And this Woman category, which is now contributing almost 10% to our overall pie, can we see this number moving in next 2 to 3 years to weigh some sizable number? Like in Man segment, we have a very decent revenue profile as of now. So this Woman can do this sort of, I would say, magic for us maybe next 2 to 3 years' perspective?

- Ankit Gupta:** See, the target to get the Woman segment in prominence is our focus point. Definitely, it's our focus point. But the thing is that on a volume basis, so the volume for Big Boss, Dollar Man and Dollar Always, like the regular economy range of products, is so high that the percentage change which has been seen is not much. It is non-differential, I would say, even though we are at 9.5%. But like by FY'25, we are hoping that we'll make this a INR 200 crore, INR 250 crore business, the Dollar Woman. But when we see it as a percentage of sales, it will be somewhere around 11%, 11.5%.
- Bajrang Bafna:** Okay. Got it. And any development on this JV side which you could highlight, both on the export side, how our strategy is going to pay off and this JV development? That's all from my side.
- Ankit Gupta:** So on the JV side, towards the end of the third quarter, only the new partner came in, G.O.A.T Brand Labs. And for the first quarter revenue, we have seen 175% kind of a growth, from INR 1.29 crore in the first quarter last year to INR 3.56 crore this quarter. And the gross margins have also improved. Apart from that, we are seeing a very good traction on the online sales part. And both the teams, like Dollar and the G.O.A.T Brand Labs, are working together to increase the direct-to-consumer model, direct-to-market the consumer model a bit strong for the Pepe, Pepe innerwear and the athleisure segment that we have. Apart from that, we are also trying to increase our distributor base for this particular product range and for the JV company.
- Bajrang Bafna:** Okay. And export traction, how do you see that segment?
- Ankit Gupta:** So exports have grown by 36% as compared to last year. And we are seeing good traction and good demand from the export side as well.
- Moderator:** Next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral Shah:** Sir, if you can detail the volume growth across the category?
- Ankit Gupta:** Yes. So as for the volume growth, Dollar Man saw a volume growth of around 49%. Dollar Always saw a volume growth of 52%. Dollar Woman saw a growth of 65%. Force NXT, 95%. Socks was 290%, which is still very small currently. And we saw the growth in Force Go Wear and Champion because in Force Go Wear, we are trying to subdue the product in and add it to the athleisure segment, which we have in Dollar Man. So it is as per the plan. Apart from that, yes, so overall, the volume growth is 52%.
- Dhiral Shah:** So if you can segregate on the mass, mid-premium as well as premium category, volume growth?
- Ankit Gupta:** Yes, I don't have that segregation ready with me right now. But on a value basis, our premium segment for Q1 FY'23, our premium was 11%, mid-premium was 50% and economy range was 38%.
- Dhiral Shah:** Okay. And sir, you just talked about that export sales has grown 36%. So what is the export contribution overall?
- Ajay Patodia:** 8%.
- Dhiral Shah:** Okay. And sir, when you talked about reduction, there is a reduction in working capital cycle. So how much that would come from the debtors and then how much on the inventory side?
- Ajay Patodia:** Basically, 6 to 7 days from debtor and 3 to 4 days from the inventory side.
- Dhiral Shah:** Okay. And sir, how is the RM inflation eased off in during Q2? How much it's been eased off? How much the raw material have eased off on a quarter-on-quarter basis?
- Ankit Gupta:** Currently we have a WIP stock of around 40% and then FG stock of 60%.
- Dhiral Shah:** And sir, have we seen any cool up in the raw material price?

- Ankit Gupta:** Initially, yes, there were some amount of dip in the raw material prices. But again, in last 5 to 6 days, it has increased. So it is still fluctuating, and commenting anything on that will be hard as of now.
- Dhiral Shah:** Okay. So we won't be taking any price hike currently, right?
- Ankit Gupta:** No.
- Moderator:** The next question is from the line of Kunal Mehta from HNM Finance & Securities. Please go ahead.
- Kunal Mehta:** I actually recently have started following the company. Can you just warn me on channel financing things, sir? Can you spend some 2, 3 minutes on that? That would be really helpful.
- Ajay Patodia:** Regarding channel financing scheme, we had the high EBITDA ICICI Bank, in this scheme we provide the portal to our distributors at their minimum level interest cost, around 8%. And if any leader, want to join our Board with DFS 15, he has to apply with the ICICI Bank and ICICI Bank with the Comfort letter from our side. And after their CIBIL state from the regulatory body allowed limit as sanctioned by years or as approved by years. And in this scheme, total process is online. No paper workings required. So this process only take 4 to 5 days if anyone wants to join the scheme. Currently, we have already 200 participants are in our Board and around 157, 160 already active in our scheme. So due to this, we also reduced our later working days, and this is very much appreciated by our distributors. And we have, too, projected that by FY'25, total of about 60% to 70% of distributors is coming in this scheme.
- Moderator:** The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.
- Dhananjay Mishra:** Sir, can you just sort of publicly tell about the Project Lakshya, whether what's sort of the plan for this FY'23 and '24 going forward? We understand that now you have added 104 possible distributors last year. What is the latest status?
- Ankit Gupta:** So currently, in totality, we have 174 distributors working under this project. We have added 32 distributors during the first quarter, and the numbers have been increasing. So we plan to complete Rajasthan, Karnataka. We have already completed Mumbai and the surroundings. We plan to complete Gujarat also. And in Maharashtra, the Vidarbha area, Nagpur, Gondia, Yavatmal, Amravati. Those regions, the eastern part of Maharashtra, I would say, we have completed. We have taken up Northeast, Bihar, Orissa, Telangana and Andhra Pradesh also for this particular year. For this particular fiscal, we'll try to complete as much as possible in this particular state and drive the results.
- Dhananjay Mishra:** Okay. You said about the Telangana and Andhra, right? I mean we are a bit having lower presence in south compared to others. So any specific plan to have any market share in the southern area this year?
- Ankit Gupta:** See, in the southern part of India, we have around 7% to 8% overall contribution coming in from South India. We are trying to increase the market share over there by through this particular project only. In Karnataka, we have seen a good growth in terms of revenue. And very soon, we'll be rolling out to Tamil Nadu and Kerala also. So we are trying to cover the entire South India, all the 5 states, into this particular project so that we get more and more market share. And going ahead, we don't have a plan right now, but we might plan a separate advertisement in a local language, regional language for South India.
- Dhananjay Mishra:** Okay. And sir, regarding the yarn prices, have you seen any sort of cool-off in recent period? Or we understand that the industry quite reluctant to raise the production. So are you getting yarns at the lower prices?
- Ankit Gupta:** Yes. So we have sort of started procuring yarn also. But see, the thing is that the market is so dynamic right now with respect to the raw material prices. There was a cool-off in the yarn prices to some extent. But again, the yarn prices increased in the last 7, 10 days. So not up to the whole extent, but yes, we covered some of the cool-off. So we

really don't know where it's going to stop. And it now all depends on the September rain also, the future cotton prices for the new crop. It really depends upon how the rain goes in the month of September and October.

Dhananjay Mishra:

Okay. And sir, in the active wear and the Woman segment, I believe some sort of man-made fibers could be applied. So in recent times, some softening of the crude prices have seen. So are we seeing any sort of, let's say, benign pricing in those areas?

Ankit Gupta:

So in terms of man-made fibers which will be used in the active wear, we have not yet started the production on anything. We have not yet procured the material. We have just made the initial prototype samples, I would say. Once it passes the testing stage, then we'll go for the test rate and everything. And after that, we'll go for the production. So the product ranges have been identified, like which are the product categories that will be coming out with. But the production has not yet started, so it would be hard to actually comment on that.

Dhananjay Mishra:

Okay. What is the overall revenue of, let's say, your winter wear to total? Can you just sort of quantify?

Ankit Gupta:

So athleisure contributed around 14% to our total sales this particular quarter.

Dhananjay Mishra:

That is the winter products?

Ankit Gupta:

So for winter products, the sale was zero, actually, because the first quarter winter product, the thermal does not sell.

Dhananjay Mishra:

No, overall, I'm asking, sir, last year, what was the share? That's what I'm asking.

Ankit Gupta:

Somewhere around 9%.

Dhananjay Mishra:

9%. So this year, because you have mentioned in the press release that you want to raise more sales in the winter products. So is there any target internally set for the growth in this sort of segment?

Ankit Gupta:

See, summer is based on your winter season. It's a seasonal product, and it clearly depends on how the weather goes. But we are very hopeful that this time, the winters would be good. And let's hope for the best, and we are ready to take on any kind of a growth that comes in the way.

Moderator:

The next question is a follow-up from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra:

Have you set any sort of projections for the Project Lakshya for FY'23, '24 and '25?

Ankit Gupta:

So we really want to complete the major chunk by FY'25. And this year, we want to add somewhere around 150 to 200 distributors into this particular project.

Dhananjay Mishra:

Okay. And next year? FY'24?

Ankit Gupta:

Yes. So it will depend upon the plan that we made somewhere around November or December month because we have still not planned it for the next year currently because what happened is that, as you know, that this particular project, what happens is it's a huge process like the mapping, enrollment, finding new distributors, asking or convincing whole distributors to come on stage. So till now, whatever states we have taken up, we really want to complete that. And the newer states needs to be identified whereon we'll be implementing next. So like in this particular month, we have just started Haryana also, we have taken up Haryana also as well of the date, which we will be rolling out. And also, hopefully, by the end of this fiscal, it will get completed. Sooner or later, Pan-India basis, we have to roll out the entire Pan-India under this particular project because we are seeing a good traction, good results in this particular project.

Let's say, in Rajasthan, apart from the Jaipur district, the entire Rajasthan is rolled out. And we are seeing good traction out there. The secondaries have been really good. The distributors are happy. Now new inquiries are coming out just through word of

mouth. So there are some relatives of Rajasthan distributors staying in Gujarat and Maharashtra. And they are coming up to us and asking for the distributorship under this particular project. So all these feedbacks are really very encouraging. And by FY'25, we have to complete a major chunk, so that a major contribution of our sales comes from this particular project.

Dhananjay Mishra: So gradually, the now distributor numbers will be ramping up rather than tapering down? And is it the understanding correct?

Ankit Gupta: Yes, we will be ramping up the number of distributors under this particular project.

Dhananjay Mishra: Let's say 142 for FY'22 and 200 for FY'23, again, something like 250 or 300 for FY'24; and gradually, let's say, close to 400 around 2025. So is it the kind of projection you are working on?

Ankit Gupta: So for FY'25, we really want to roll it out to somewhere around 600 to 700 distributors.

Dhananjay Mishra: 600 to 700. I'm quite confused how.

Moderator: As there are no further questions in queue, I now hand the conference over to the management for their closing comments.

Ankit Gupta: I take this opportunity to thank everyone for joining this call. I hope we have been able to address all your queries. For any further inquiry or any kind of a question which we couldn't answer to you or you couldn't ask, kindly get in touch with us. And thank you once again, everyone. Have a nice day.

Ajay Patodia: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Anand Rathi Share and Stock Brokers, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.