"Dollar Industries Limited Q1 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Dollar Industries Q1 FY2018 Earnings Conference Call, hosted by Anand Rathi Shares & 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 Mr. Girish Solanki from Anand Rathi Share & Stock Brokers. Thank you and over to you Sir!

Girish Solanki: Thank you. Good afternoon to all. Today, we have with us Mr. Vinod Gupta, who is the Chairman and Managing Director of the Company. We have with us Ms. Sashi Agarwal, is the CFO of the company. Over to Mr. Vinod Gupta for his opening remarks!

Vinod Gupta: Good afternoon gentlemen. Actually this Dollar Industries Limited we just uploaded the quarterly results for the first quarter. We have published in the newspaper on August 12, 2017. We had the board meeting to approve the accounts on August 11, 2017 and the same we are published on the August 12, 2017. The key features of our quarterly results for the first quarter I asked our CFO, Madam, Sashi to speak out. Sashi!

Sashi Agarwal: Good afternoon every one. This has been the very first quarter after we got listed in the National Stock Exchange for the fiscal 2017-2018 and very first year as well we have transitioned into Ind-AS from our I-GAAP method of accounting, so the results have been compared to the market and the industries, we closed the total revenue at 239.57 as against the revenue of 236.79 in the corresponding quarter of last fiscal.

The jump has been moderate. It was a little flattest at 1% whereas we had expected a little higher jump, but this could not be achieved due to the GST implications. So we had to push a lot of sales in the last month of June. People were very apprehensive in terms of building up stock as on June 30, 2017, but nonetheless we could achieve the target and we maintained what we have done in the previous quarter or in the last corresponding quarter of last fiscal.

Our EBITDA stood at 10.82% as against 7.54% in the last quarter. The numbers were Rs.25.91 Crores as against Rs.17.86 Crores. The PBT were at Rs.18.38 Crores as against Rs.7.44 Crores as on June 30, 2016. The PAT was recorded at Rs.12.51 Crores during quarter 2017 as against Rs.8.22 Crores on June 30, 2016. So, this is in terms of overall financial results of company. Any specific question, we will take as of when we have been asked, but as of now I will again hand this back over to Mr. Vinod Gupta to speak about the way forward and other developments of the Dollar Industries.

Vinod Gupta: One of the foremost developments that have taken place very recently that we have entered into a JV agreement with Pepe Jeans Europe BV. That has been a good development in our organization that we are bringing another foreign brand in to this country to have this, innerwear line of products. There is a huge gap in this segment where one or two company's brands are working in this country in the upper I mean super premium kind of innerwears.

This Pepe jeans we have entering into a 50%-50% JV wherein a total investment of Rs.200 Crores will be there in four to five years of time. Out of this RS.200 Crores, one third will be in the form of equity, equity itself is coming around probably Rs.2 Crores and the rest of amount will be arranged from the financial institution of the bank. Out of this equity participation of Rs.72 Crores, Rs.36 Crores will be pumped by Dollar Industries Limited that is us and Rs.36 Crores will come in from European form of direct FDI.

The headquarters of this JV Company, which is going to be a Pepe Jeans Inner Fashion Private Limited the headquarters will be in Kolkata and it will be a professionally managed organization wherein there will be four to five board of directors, two from our side, two from Pepe side and the one will be independent director.

The entire organization will be run professionally. It will have reached own setup of CEOs, CFOs and then sales GM and there is entire chain and we are having turnover of Rs.60 Crores in the first year of operation. I mean for us the first year operation will be 2018-2019 financial years. The first year of operation will see a turnover of Rs.60 Crores and we are going to have the business plan, we have already jot out to have a turnover of Rs.600 Crores in the 10th year of operation.

This JV Company will have an exclusive perpetual licensing agreement with Pepe Jeans, the owner of the brand. They are from Holland. So after tenth year, the licensing agreement will automatically get renewed for further ten years provided we have a turnover of Rs.100 Crores in the tenth year, which is very likely because the first year target itself is only Rs.60 Crores, then we are having a turnover of Rs.600 Crores in the tenth year, but the license has been conservatively made a little, which speaks of turnover of Rs.100 Crores only in the tenth year, which is very likely that we are able to have that. Again after tenth year, the license will get renewed for further 10 years of time that is up to 28th year. So like-to-like basis the license is going to renew.

Now coming onto the financial part I mean the working performance of this new JV as we have plan as such. We are having an EBITDA margin of not less than 15%. Once the economy of the scale is being raised maybe that is around fifth or sixth year of operation. Now there is a question that why we have entered into this JV and what are synergies behind it? What we understand that if this upper scale segment of the market there is always huge gap, the entire housing segment is free calculate amongst the organized and the unorganized sector. There is no as such research on the figures, but the industry understands that there is a total market of Rs.8000 Crores in the organized sector and more than double on the unorganized sector.

The moment we talk of the organized segment, we understand that only one third of the market of this Rs.8000 Crores organized the market, one third is only being treated by the brands, which are currently moving in India in the upper scale target customers. So there is a huge gap, for that reason only we are entering into this JV wherein we have the efficiency with regard to the stores and channel with regards to the marketing network and the Pepe we have expertise in terms of marketing, branding and the style because today people are more inclined to have the branded products rather than the unbranded products. So the demand of the branded products are going to be increased in the times to come, so there will be a huge gap in terms of products being fitted for upscale segment of the society. So for that reason, we have come up over this JV. So that we have the full kind of expertise of them to put into this new JV so that that we can get the maximum mileage out of this entire what we say entire this partnership we have.

Now the second, new development which has taken place we have taken the board's permission on the August 11 meeting of wherein they will be an allotment of around Rs.5 lakhs shares of Rs.10 each to the promoter company, so that we get a good amount of money into getting into this organization from the promoters, so that we can have some advantage on the account of the interest being take by the company to the bankers, so that another development that has taken place. Now, I would like to thank you everyone and would be happy to take the questions from your side.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thank you so much for the opportunity. Sir I just wanted to know the Rs.5 lakh shares, which you have spoken about to the promoter that would be at what rate Sir?

Vinod Gupta: It will be at the rate being decided by the SEBI. So we cannot decide the rate. It is normally been decided by the SEBI. Once we put in the application, the application is already underway and normally SEBI takes the average of, I think, six months average they take under that ICDR guidelines.

Kunal Bhatia: With this amount are you planning to clear off any debt or it will be used?

Vinod Gupta: The amount, which is going to be pumped into this company we are going to use in the way like, first of all some amount of the money will be used for the Pepe Jeans where we have to pump in the money into; their equity shares. Secondly, we are going to pay off certain long-term liabilities, in terms of, there are certain loans from the group companies of promoter that will be paid off. Thirdly, whatever raised amount is there, we are going to pay off the bank's loan. I mean only on the current working capital loan that has been dearer from the banks. Whatever long-term liabilities are there from the banks, they are going to be paid off in the next 12-15 months' of time, so we are not going to touch that amount, because the moment we touch that amount, then we have to have some penalty from the banker's side for early payment. So, long-term liabilities consist of term loans from the bank, we are going to remain with unless and until they have been paid off in line with the arrangement, but the working capital loans, so that is going to be paid off.

Kunal Bhatia: Sir secondly, if you could let us know what kind of growth do you see for your base business going forward and we have seen good numbers this time, so are these kind of growth sustainable on the profitability as well?

Vinod Gupta: This is going to remain, because we are the only company to have the full backward integration, I mean, the entire chain of activities, inventory activities are there with us. So, that has already started paying off, and again we have also taken certain steps to reduce the price gap between our company and the peer brands, so that has also been working very well. We are going to have the lesser amount of difference of price between our brand and the peer company brands, so that has also been paying well. There is good acceptability of the current rates in the market, because in the last six months, we have already reduced the gap. We were a little worried about whether the market is going to accept that new gap or not, but then it has been fair that they have already accepted the price gap, which we are maintaining right now and we are going to reduce the gap further in the future. So, on the profitability side, we do not foresee anything negative. It is going to be fairly well.

Kunal Bhatia: I will return back to the question. Thank you.

Moderator: Thank you. We have the next question from the line of Karan Desai from L&T Mutual Funds. Please go ahead.

Karan Desai: Hi Sir, Good afternoon. Congratulations on good show. Sir, I had a couple of questions. One is first of our core Dollar business, are we seeing any raw material pressure?

Vinod Gupta: We do not think any raw material pressure is there, because the raw cotton is plenty available in India, and in fact, India exports. Given that sometimes we find raw cotton to be cheaper from African countries, so we directly import from African countries as well. So, there is no dearth of raw material in India and it is plenty available.

Karan Desai: Sure, and Sir, you did spoke about, because of GST, there was not much channel filling, so was it only during the end of the June month or was it through the entire June?

Vinod Gupta: No. There was some gap in June only, because the advisors, they were recommending our distributors to have the lesser or stock and they made this situation wherein the dealers were afraid of piling up their stocks. In spite of June being a good month of sale for innerwear industry, but they declined to purchase because they have lesser of stock as on the 30th of June. So that month is over now. We do not find any kind of problem in the times to come.

Karan Desai: And, things are back on track in the month of July?

Vinod Gupta: Yes, it should be.

Karan Desai: Sure. Sir, congratulations also on the tie up with Pepe Jeans, wanted to understand what new does Pepe bring to the table as you predict it will be more of financial investment variant, it will have its own team and they will be taking more of the decision, so I wanted to understand how different would be the price point and how different the strategy would be?

Vinod Gupta: Yes. See, once this Pepe Jeans, it is kind of a super premium brand, and the fashion and product styling and they way the product styling is going to be presented in the market, it will be for the upscale segment of the economy, and there are only a few players working in this segment, so price-wise, they will be upscale and the products will be.

Karan Desai: If you could name a few, it would help us in understanding the price point?

Vinod Gupta: To understand, Jockey.

Karan Desai: Okay.

Vinod Gupta: There are brands like Levis, there are brands like FCK, but out of these brands, only Jockey is doing fairly well and the rest of the brands, they are mostly being sold to their own EBOs or SISs, but in Pepe, we will have mix of both the chains. I mean, it will be sold through all exclusive Pepe stores, it will be sold through SIS mode, it will be sold through modern retail format, it will be sold through more than 1 lakh MBOs, wherein we have our expertise to sell their products. So, we will be utilizing the entire chain of network, whatever Pepe has they will and whatever we have we will. So, it will be sold through the entire chain of system.

Karan Desai: And, lastly, Pepe, if I understand correctly, already has around 220 or 250 of its own stores, so your products will also be available there, right?

Vinod Gupta: Yes, my Dollar products?

Karan Desai: No, not Dollar precuts, the new?

Vinod Gupta: Yes. See, there are few things I would like to share with you. First of all, it is a JV, it is not a licensing, so once it is a JV, so they have equal participation and unless and until the goods have been sold through their channel, the goods are not going to get popularized. So, ultimately, whatever EBOs they have, they have around 250 EBOs, so those will be having separate corner to display the undergarments and it will be sold through those outlets as well.

Karan Desai: Okay, and for our Dollar business, what would be our advertisement expenditure for this year?

Vinod Gupta: Advertisement expenditure this year, we are trying to have a gap on the numbers in absolute terms. We had spent around Rs.86 Crores last year, so this year our strategy is not go anything beyond 86 Crores.

Karan Desai: Sure. Thank you Sir and good luck.

Moderator: Thank you. Next question is from the line of Sangeetha P from Cogito.

Sangeetha P: Good afternoon Sir. I joined a little late, so I just wanted a clarification that JV with Pepe is for undergarments or jeans or for both.

Vinod Gupta: It is only for undergarments, it is for gym wear, it is for leisure wear, it is for tracks, and everything, but not outer wear.

Sangeetha P: Not outer wear, okay, great, thank you, and the other question I had Sir was that, you know when I looked at the numbers, we have had a very good expansion in margins and we have had a very good bottomline, the topline has been somewhat constant that is primarily because of GST?

Vinod Gupta: Yes.

Sangeetha P: Okay and the improvement in the margins is it because of the price increase you have taken or is there any other factor, which is there?

Vinod Gupta: Yes. I would like to Sashi to speak on this.

Sashi Agarwal: Sure, this is primarily due to two reasons, number one, definitely that there has been a price increase with the one remaining more or less constant as compared to the first quarter, Q1 of 2016, but if you really look at our numbers in terms of the fiscal year 2017, but the entire ear, you will find that my number for this particular quarter, is all very much in line with the by annual incomes, although there have not been covered into ANDA as of now because this fiscal we have reported quarterly numbers both for Q1 2017 and Q1 2016 in these variable, but the conversion of my entire accounts for 2017 is still in work-in-progress and audited by just to verify them. So we are not reporting those numbers right now, but once we are completely done, you will see that there has been very minimum impact of Ind-AS first of all to our accounts and slight would be there we have some certain decline because of we have to make a future count, state because we have to made certain expenses to achieve the account, so that would be there. Apart from that, maybe certain grouping and grouping will be required Ind-AS counting front. Other than that there would be not major changes, so I would see more or less my numbers would be very less in line except from my topline, which will get reduced, so the 10.82% and the PBT percentage of 7.67% PAT of 5.3%, it would be benefit from line in with annual accounts of 2017.

Sangeetha P: Okay. Actually the reason for my question was mainly in that there has been an improvement in your gross margins right this quarter and in terms of the reported margins whereas what we have been hearing from a number of other companies that cotton prices have been higher, so I was just a little surprised pleasantly of course with the fact that the margins were higher in a scenario where raw material prices have been high and there has been some pressure on topline because of GST and other factors, so that is why I wanted to try and get a little bit of granularity on that that what is the reason, is it coming mainly because of the price increases if you taken or did you have some low cost inventory or what actually happened?

Sashi Agarwal: Just to answer this question again, Sangeetha with me get back to my financial accounts of 2017, under I-GAAP where I reported a gross margin of 43.3%, so this year it is coming to

46.17%, so once I convert my I-GAAP accounts into Ind-AS it would be somewhere very similar from financial year 2017. It might accounts for this particular quarter would be in a similar line for the entire accounts of 12 months for the fiscal 2017, I would not take my previous quarter, Q1 of 2016, I will not consider by this year, I will rather compare by accounts with my entire financial year 2017 rather than comparing it to Q1 2016.

Sangeetha P: Okay. Fine all right, I understood. Thank you very much.

Moderator: Thank you. The next question is from the line of Anurag Purohit from Anived Portfolio Management. Please go ahead.

Anurag Purohit: Good afternoon. I just wanted to get some sense in terms of how the premium versus economy segment has moved in the quarter and has there been any move in terms of Force NXT how that strategy is panning out?

Sashi Agarwal: Mr. Purohit, I will go ahead and take this question, so in terms of my numbers achieved this particular quarter in the premium economy, there has not been much of a movement in growth, we were looking at the growth numbers for Force NXT and my Dollar Big it has been more or less in line what we had done previous year because this particular as we have been talking about the GST impact, there is no much of movement in terms of the dealers front to uplift the stock inspection in the premium category, but definitely my online stock and my modern retail trade had been doing better in terms of Q1 segment. Overall it has been established.

Anurag Purohit: Okay. In terms of cost you was supposed to get some benefit out of the GST on the input side, has there been any clarity available on that because if I am not wrong you are on the lower, you are on the 5% tax side on GST on the output side where in put you have some of the costs, which are on the high tax, the service tax pay, so there could be some credit on that front, so is there some clarity available on that front now?

Sashi Agarwal: As of now again I will see when we speak about clarity, GST is one such thing that everyone was lull as it really comes by, but whatever is available in the market and whatever the consultancy we have been getting from the different consultants and people who were working on to GST according to them, yes, we should be getting the credit, there should not be any problem. So whatever the tax overflow is there in our input side would be refunded.

Anurag Purohit: I will come back to queue for more questions. Thanks.

Moderator: Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar: Could you just tell me what is the quantum of price increase we have taken in this quarter and generally how much price increase, do you take annually?

Vinod Gupta: See the price increase is normal depends on the cost of the material as I mean there is a good amount of jump in the basic raw materials, we immediately takes tax to increase the prices of our product. In this first quarter, we have increased our prices once and there was a jump of around 3% in the prices.

Manish Poddar: Okay and generally in the last two to three years what is the price increase, do you take annually?

Vinod Gupta: No, in the last year we have increased our prices four times in the last fiscal and exactly what happened before that it is I mean out of mind right now, but last year we increased our prices to five, four times.

Manish Poddar: And how much was the cumulative terms?

Vinod Gupta: Cumulative effect last year could be 4%-5%.

Manish Poddar: 4%-5% and in this Pepe JV who will incur the ad spends and what sort of EBITDA margin are you looking that is in the first year, FY2019?

Vinod Gupta: In the first year, EBITDA margin will not be that much because the business plan which we have laid out that plan the EBITDA margins are of course not up to the mark, because the things will take sometime to get stabilized. If you talk of an EBITDA margin in the first two years or three years of the operation I think it will be wrong to speak on that, but after the economy of scale is being reached, we do not see any reason, we must have an EBITDA margin of not less than 15%.

Manish Poddar: So two things then first thing is will be we loosing cash in the first two to three years on the brand?

Vinod Gupta: There did not be. Margins will be on the lower side but there will not any losses. The balance sheet will be positive, but may not be that is like the EBITDA margin is 15% or so. It will take some time to get the things stabilized.

Manish Poddar: Okay and who will incur the ad spend?

Vinod Gupta: The JV company will incur the ad spend.

Manish Poddar: What is the capex that is lesser for FY2018-2019?

Vinod Gupta: For Dollar?

Manish Poddar: Yes Sir, how we are looking Sir?

Vinod Gupta: No, it is no fresh capex as of yet, no capex.

Manish Poddar: The new brand or the JV entity would come under new plant altogether and a new structure altogether or there will be utilizing any part of our existing?

Vinod Gupta: See the board is going to be formed and the separate professor team is going to join the board, so that particular team is going to take the call, which where they want to move. As of now what we understand that we are going to go on the basis of FOB basis wherein a full pledged product is to be abort from the market, so we wanted to have that JV to be there will not be any capex as of now.

Manish Poddar: Do we have spare capacity in our existing plants let us say is that option be an exposed?

Vinod Gupta: See in our industry the way the industry is working there is no concept called installed capacity or the insulate capacity. See the maximum of the place on working on the job work basis so as and when you find some good amount of orders in your pocket, you add on your jobbers and get the things done.

Manish Poddar: Okay and when you say that ad spend will be flat as an absolute amount will be flat, you mentioned only about ad spends, the scheme, discount and rebates with that?

Vinod Gupta: As of this they are also going to get moderated because under GST, there is lots of problem being seen that once we allows certain schemes to go free and all that, so we are going to take some decisions on those schemes account because the clarity is still awaited from the consultant side whether we can give anything free along with our home product and consumer scheme or let us say a retailer scheme to offer something like say TV or fridge against certain quality, so that particular call is still pending and as of now we are going on with the schemes the way we did in the past, but if the call will again depend on how the market behaves under the GST regime, so it will take few months to take call on that.

Manish Poddar: With the absolute spend be in the similar ballpark?

Vinod Gupta: No the amount will not get increased, but it will surely get decreased.

Manish Poddar: Okay and just one final thing what is an outlook on debt? I believe you are raising about Rs.70-75 Crores, let us say if you assumed the average of the prices, so Rs.35 Crores will go in this JV, the remaining Rs.40 Crores debt would come down, other than this what is the outlook on that let us say from couple of years of time?

Vinod Gupta: See where the company is performing the way the level of being retained; the level of private label and PAT is there surely may be in two to three years of time, it will be fit.

Manish Poddar: Okay, so internally we have a target that by end of FY2020 we aim to be debt free?

Vinod Gupta: Yes, must be in that in the next few years.

Manish Poddar: Thanks.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Good afternoon Sir. Congratulation for the great set of numbers. Sir in your annual report you have mentioned you have a target to achieve Rs.2000 Crores revenue by 2024 from current Rs.900 Crores, so this will include this JV income also?

Vinod Gupta: No not at all.

Dhiral Shah: So this will be additional, right?

Vinod Gupta: That would be additional.

Dhiral Shah: Okay.

Sashi Agarwal: Yes Mr. Shah I would like take this further that since we had a 50-50 partnership under the Ind-AS it will just only get, coming to Dollar as an equity method, we will not be having a line by line consolidation in terms of revenue being added.

Dhiral Shah: What is the outlook on margin for FY2018?

Sashi Agarwal: FY2018 is very similar to what we have been always talking about, so we are expecting an increase in our debt another 2%-3% this fiscal. So FY2018, currently we have ended up

11% EBITDA in FY2017 as per Ind-AS so if I have to bill my calculation on I-GAAP it would be say round about 13% to 13.5%.

Dhiral Shah: 13.5% at FY2018 end?

Sashi Agarwal: Yes.

Dhiral Shah: Thank you Madam. That is all from my side.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference back to the management for any closing comments.

Sashi Agarwal: I really thank you for the participants who have taking chance and have here. In case there are any further queries from them, we can kick them offline if required. Thank you so much. We thank you for joining us and you may now disconnect your line or I would have it over to Mr. Solanki to take it over now from here.

Moderator: Thank you very much. On behalf of Anand Rathi Shares and Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.