

**CMP: INR 462**

**Rating: BUY**

**Target Price: INR 594**

**Stock Info**

BSE	541403
NSE	DOLLAR
Bloomberg	DOLLAR IN
Reuters	DOLL.NS
Sector	Textile
Face Value (INR)	2
Equity Capital (INR Cr)	11
Mkt Cap (INR Cr)	26.08
52w H/L (INR)	477 / 134
Avg Yearly Vol (in 000')	259.09

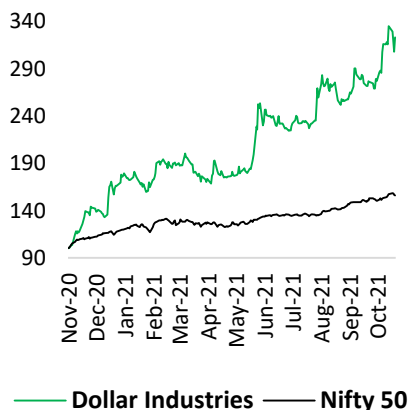
**Shareholding Pattern %**

(As on September, 2021)

Promoters	72.91
FII	-
DII	-
Public & Others	27.09

Stock Performance (%)	1m	3m	12m
Dollar Industries	23.3	25	241.7
Nifty	2.2	12.8	53.5

**IDFC FIRST Bank Vs Nifty**



**Dollar Industries Ltd.**

- Consolidated Net Profit for the quarter grew by 99%YoY/ 94%QoQ of INR 437.5 mn in Q2FY22 against Q2FY21 of INR 220 mn.
- Revenue from operations grew by 52YoY/ +91% YoY stood at INR 3908 mn in Q2FY22 against Q2FY21 of INR 2574 mn. the company has achieved highest ever growth in Q2.
- Gross margin of the company contracted by 655bps YoY at 54% against 61% in Q2FY21.
- Despite the decrease in the gross margin, the company reported EBITDA margin expansion by 293bps QoQ to 16.6% Q2FY22 against Q1FY21 of 13.7% in Q2FY22 due to higher revenue.
- EPS at INR 7.72 in Q2FY22 against INR 4.0/ INR 3.9 in Q1FY22/ Q2FY21.
- Modern Retail: 4% of Revenue by end FY22 and 6% of Revenue by FY23.

**Q2FY22 Conference Call Highlights:**

**Channel Financing:** They have 1,000+ distributors and got into the contracts with private banks in September end. In 2-3 years they will cover all distributors in their channel financing plans. They also have higher bargaining power with their project Lakshaya distributors and will be pitching to all of them starting with the most distressed ones. A lot of convincing will be involved, and they are making a team to drive this project. They should be able to get maximum distributors on board in 2-3 years. They expect their receivables to improve by 60-70% with just 80% of them on board.

**EBOs:** They started opening EBOs for the first time in Uttar Pradesh. If they perform well, the company will open 75 to 100 of them this year.

**Export growth:** Exports grew from INR 22cr to INR 30cr YoY.

**Valuation & View:** At the CMP of INR 462, the stock trades at 17.7x/14x P/E based on the FY23E/FY24E EPS of INR 26.1/33. We maintain a BUY rating at a TP of INR 594 per share, valued at PE 18x FY24E, with an upside of 28.6%. We assign this rating to the company because it has an INR 2,000cr Revenue target by FY25, and a target EBITDA margin of 18% after considering the channel financing costs. They have also handled price hikes in raw material well despite the pandemic, by passing them down the value chain and retaining their market demand despite it. They have also shown an impressive top-line growth YoY, and we believe the company has reasonably strong fundamentals with impressive plans for future growth.

INR cr (Consolidated)	FY21	FY22E	FY23E	FY24E
Revenues	1,037	1,263	1,543	1,871
YoY growth (%)	7.2	21.8	22.1	21.3
Operating profit	138	184	233	288
OPM (%)	13.3	14.6	15.1	15.4
Reported PAT	86	117	148	187
YoY growth (%)	50.7	37.0	26.4	26.2
EPS (Rs)	15.0	20.7	26.1	33.0
P/E (x)	30.7	22.3	17.7	14.0
Price/Book (x)	4.9	4.1	3.3	2.7
EV/EBITDA (x)	20.0	15.0	11.9	9.4
Debt/Equity (x)	0.3	0.2	0.1	0.1
RoE (%)	17.2	19.8	20.8	21.5

Source: Arihant Research, Company Filings, Bloomberg

## Q2FY22 - Quarterly Performance (INR Cr)

INR Cr (consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>3906.75</b>	<b>2045.83</b>	<b>2573.94</b>	<b>90.96%</b>	<b>51.78%</b>
Raw Material Cost	1,791	774.90	1,011	131.07%	77.10%
Gross Profit	2,116	1,271	1,563	66.51%	35.40%
Gross Margin	54%	62%	61%	-796bps	-655bps
Employee cost	154.5	128.2	109	20.52%	41.87%
Other Expenses	1314.0	789.4	1,103	66.47%	19.18%
<b>EBITDA</b>	<b>648</b>	<b>353</b>	<b>351.4</b>	<b>83.28%</b>	<b>84.31%</b>
EBITDA margin %	16.6%	17.3%	13.7%	-69bps	293bps
Other Income	3	9	5	-63.69%	-37.86%
Depreciation	40	38	35	5.01%	15.65%
<b>EBIT</b>	<b>611</b>	<b>324</b>	<b>322</b>	<b>88.39%</b>	<b>89.70%</b>
Finance cost	17	14	23	20.79%	-27%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>594.22</b>	<b>310.52</b>	<b>299</b>	<b>91.37%</b>	<b>98.55%</b>
Tax Expense	151	79	76	90.08%	99.57%
Effective tax rate %	25.4%	25.6%	25.3%	-17bps	13bps
<b>PAT</b>	<b>443.27</b>	<b>231.10</b>	<b>223.65</b>	<b>91.81%</b>	<b>98.20%</b>
Less: Tax expenses on discontinued operation	-6	-6	-3		
<b>Consolidated PAT</b>	<b>437.59</b>	<b>225.41</b>	<b>220.18</b>	<b>94.13%</b>	<b>98.74%</b>
PAT margin %	11.2%	11.0%	8.6%	18bps	265bps
<b>EPS (Rs)</b>	<b>7.72</b>	<b>4.0</b>	<b>3.9</b>	<b>94.46%</b>	<b>98.97%</b>
<b>PE</b>	<b>59.78</b>	<b>116.25</b>	<b>118.94</b>		

Source: Arianth Research, Company Filings, Bloomberg

### Other Conference Call highlights:

**Guidance:** The company has an INR 2,000cr revenue target by FY25, and a target EBITDA margin of 18%. Over time they plan to we will build the costs of channel financing into their pricing model. They already have a price gap of 2-3% from their peer group so they will try to focus on narrowing it with channel financing. The company expects a 15-16% growth. Due to the volatility of yarn prices, government regulation regarding the revision of the GST structure for textiles, and the current COVID situation, the guidance may change by 1-2%. EBITDA Margins used to be 14-15%, now their guidance is 15-17% after considering all the channel financing costs.

**Project Lakshaya:** Project Lakshaya will be targeted toward areas where the big distributors aren't present because they already contribute a lot to the sales which the company doesn't want to disturb. They give the distributors a month to two after joining the project to improve their credit. The management believes this will work fine as most of their distributors are exclusive to them and don't deal with peers. They will convince the big distributors to get on board with the channel financing too eventually in the next one or two quarters.

## Key Financials

Income statement (INR cr)	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>1,037</b>	<b>1,263</b>	<b>1,543</b>	<b>1,871</b>
Net Raw Materials	656	804	972	1173
Advt & Promotion	211	253	309	374
Employee Cost	45	54	66	80
Other Expenses	198	221	272	329
<b>EBITDA</b>	<b>138</b>	<b>184</b>	<b>233</b>	<b>288</b>
<b>EBITDA %</b>	<b>13.3</b>	<b>14.6</b>	<b>15.1</b>	<b>15.4</b>
Depreciation	(15)	(22)	(30)	(35)
Interest expense	(9)	(7)	(6)	(5)
Other income	3	4	5	6
Share of profits associate & JV	(2)	(2)	(2)	(2)
<b>Profit before tax</b>	<b>115</b>	<b>158</b>	<b>200</b>	<b>253</b>
Taxes	(30)	(41)	(52)	(66)
Minorities and other	-	-	-	-
<b>Reported Net profit</b>	<b>85</b>	<b>117</b>	<b>148</b>	<b>187</b>
Other Comprehensive income	0	0	0	0
<b>Net profit</b>	<b>86</b>	<b>117</b>	<b>148</b>	<b>187</b>
<b>EPS</b>	<b>15.1</b>	<b>20.7</b>	<b>26.1</b>	<b>33.0</b>

Source: Arihant Research, Company Filings, Bloomberg

Balance sheet Consolidated (INR cr)	FY21	FY22E	FY23E	FY24E
Equity capital	11	11	11	11
Reserves	525	633	771	949
<b>Net worth</b>	<b>537</b>	<b>644</b>	<b>783</b>	<b>960</b>
Minority Interest	0	0	0	0
Debt	147	127	112	87
Other non-current liabilities	2	2	2	2
Deferred tax liabilities (net)	0	0	0	0
<b>Total Liabilities</b>	<b>686</b>	<b>773</b>	<b>897</b>	<b>1,049</b>
Fixed assets	79	114	160	167
Capital Work In Progress	15	16	22	25
Other Intangible assets	0	0	0	0
Goodwill	0	0	0	0
Investments	0	0	0	0
Other non current assets	18	21	26	31
Inventories	334	391	437	505
Sundry debtors	331	368	429	504
Loans & Advances	1	1	1	1
Other current assets	47	58	70	85
Sundry creditors	(140)	(168)	(204)	(246)
Other current liabilities & Provisions	(12)	(15)	(18)	(22)
Cash	7	-19	-35	-12
Other Financial Assets	5	7	9	10
<b>Total Assets</b>	<b>686</b>	<b>773</b>	<b>897</b>	<b>1,049</b>

Source: Arihant Research, Company Filings, Bloomberg Estimates

<b>Cash flow Consolidated (INR cr)</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Profit before tax	115	158	200	253
Depreciation	15	22	30	35
Tax paid	(30)	(41)	(52)	(66)
Working capital Δ	16	(73)	(81)	(112)
Change in Goodwill	-	-	-	-
<b>Operating cash flow</b>	<b>117</b>	<b>66</b>	<b>98</b>	<b>110</b>
Capital expenditure	(26)	(58)	(83)	(45)
<b>Free cash flow</b>	<b>91</b>	<b>8</b>	<b>15</b>	<b>65</b>
Equity raised	0	-	-	-
Investments	-	-	-	-
Others	(1)	(5)	(6)	(7)
Debt financing/disposal	(79)	(20)	(15)	(25)
Dividends paid	(10)	(10)	(10)	(10)
Equity Buy back	-	-	-	-
Capital subsidy	-	-	-	-
Other items	(0)	-	-	-
<b>Net Δ in cash</b>	<b>1</b>	<b>(27)</b>	<b>(16)</b>	<b>23</b>
<b>Opening Cash Flow</b>	<b>6</b>	<b>7</b>	<b>(19)</b>	<b>(35)</b>
<b>Closing Cash Flow</b>	<b>7</b>	<b>(19)</b>	<b>(35)</b>	<b>(12)</b>

Source: Arianth Research, Company Filings, Bloomberg

<b>Ratios</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Growth matrix (%)</b>				
Revenue growth	7.2	21.8	22.1	21.3
Operating profit growth	32.0	33.6	26.3	23.7
Net profit growth	48.8	37.4	26.4	26.2
<b>Profitability ratios (%)</b>				
RoCE	13.6	17.0	18.5	19.8
RoNW	17.2	19.8	20.8	21.5
RoA	12.5	15.2	16.5	17.8
<b>Per share ratios</b>				
Dividend per share	1.7	1.7	1.7	1.7
Book value per share	94.6	113.6	138.0	169.3
<b>Valuation ratios</b>				
P/E	30.7	22.3	17.7	14.0
P/CEPS	26.0	18.8	14.7	11.8
P/B	4.9	4.1	3.3	2.7
EV/EBIDTA	20.0	15.0	11.9	9.4
<b>Payout (%)</b>				
Dividend payout	11.3	8.2	6.5	5.2
Tax payout	26.0	26.0	26.0	26.0
<b>Liquidity ratios</b>				
Debtor days	114.9	105.0	100.0	97.0
Inventory days	183.2	175.0	162.0	155.0
Creditor days	55.9	56.0	56.0	56.0
<b>Leverage ratios</b>				
Interest coverage	14.4	24.5	34.9	52.3
Net debt / equity	0.3	0.2	0.2	0.1
Net debt / op. profit	1.0	0.8	0.6	0.3

Source: Arianth Research, Company Filings, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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