

CMP: INR 610

Rating: Buy

Target Price: INR 807

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)	3,481
52w H/L (INR)	666 / 207
Avg Yearly Vol (in 000')	230

Shareholding Pattern %

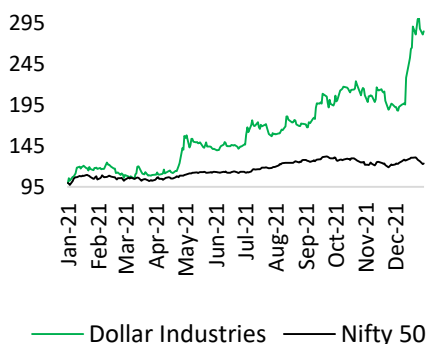
(As on December, 2021)

Promoters	72.91
FII	0.20
DII	1.70
Public & Others	25.19

Stock Performance (%)

	1m	3m	12m
Dollar Industries	47.1	37.0	182.4
Nifty 50	(0.7)	(6.9)	21.4

Dollar Industries Vs Nifty 50



Dollar Industries Ltd.

- Consolidated Revenue from Operations clocked in at INR 382 Cr Vs INR 312 in Q3FY21. (+23% YoY, -2.21% QoQ). This beat our estimates of INR 372 Cr by 3%. The fall was mostly due to price increases that were passed down.
- Consolidated EBITDA was INR 64 Cr Vs INR 59 Cr in Q3FY21 (+49% YoY, -0.74% QoQ). This is largely due to the impact of project Lakshya which has had a positive effect on operating costs by optimizing the supply chain and streamlining operations. This beat our estimates of INR 56 Cr by 14%.
- EBITDA Margin was 16.83% Vs 13.84% in Q3FY21. (+299bps YoY, +25bps bps QoQ). This beat our estimate of 15% by 183bps.
- Consolidated PAT was INR 44 Cr Vs INR 28 Cr in Q3FY21. (+60% YoY, +1% QoQ). This beat our estimates of INR 36 Cr by 22%.
- EPS was INR 7.82 Vs INR 4.9 in Q3FY21. (+60% YoY, +1% QoQ).

Q2FY22 Conference Call Highlights:

Raw Material Prices: The cotton market has become very volatile in past 9 months with prices of cotton up tremendously (from INR 35,000 per bale to INR 75,000 per bale YoY), pushing up the prices of yarn up too. Price hikes were taken in Dec' 21 and will be taken in Feb'22.

Project Lakshya: It now has 151 distributors on board, up from 90 in Q2 and 51 in the beginning of FY22. The company expects greater market penetration led by primary sales and secondary, coupled with faster recover and dues due to the project

Valuation & View: At the CMP of INR 610, the stock is trading at 18.3x/14.5x P/E based on the FY23E/FY24E EPS of INR 33.3/42.1. We maintain our "Buy" rating with a TP of INR 807 per share, valued at a PE 19.2x FY24E, with an upside of 32.3%. The current raw material headwinds will persist in the near future, and show no signs of slowing down soon. Despite this, the company is attempting to gain market share through premiumization initiatives and continued aggressive expansion of their retail network. We remain positive on the company's future, as it continues to strive to deliver volume led growth, aided by the success of project Lakshay and their channel financing programme.

INR Cr	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,029	967	1,037	1,333	1,609	1,925
YoY growth (%)	11.2	(6.0)	7.2	28.6	20.7	19.6
Operating profit	136	105	138	229	282	345
OPM (%)	13.2	10.8	13.3	17.2	17.5	17.9
Reported PAT	74	57	86	150	184	229
YoY growth (%)	(4.4)	(23.5)	50.7	75.8	22.5	24.2
EPS (Rs)	13.0	10.1	15.0	26.5	32.5	40.3
P/E (x)	47.0	60.4	40.6	23.0	18.8	15.1
Price/Book (x)	8.3	7.5	6.4	5.1	4.1	3.2
EV/EBITDA (x)	27.1	35.2	26.1	15.0	12.6	10.0
Debt/Equity (x)	0.6	0.5	0.3	0.2	0.1	0.1
RoE (%)	19.3	13.0	17.2	24.8	24.1	23.8

Source: Arihant Research, Company Filings

Q3FY22 - Quarterly Performance (INR Cr)

INR Cr (Consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue from Operations	382	391	312	-2.21%	22.53%
Raw Material Cost	187	179	140	4.30%	33.40%
Gross Profit	195	212	172	-7.71%	13.68%
Gross Margin	51%	54%	55%	-305bps	-398bps
Sub Contract Expenses	64	77	59	-16.16%	8.25%
Employee cost	17	15	12	9.75%	41.32%
Other Expenses	50	55	57	-9.07%	-13.08%
EBITDA	64	65	43	-0.74%	48.97%
<i>EBITDA margin %</i>	<i>17%</i>	<i>17%</i>	<i>14%</i>	<i>25bps</i>	<i>299bps</i>
Other Income	1	0	1	351.31%	130.77%
Depreciation	4	4	4	5.31%	12.38%
EBIT	62	61	40	0.77%	53.75%
Finance cost	2	2	2	19.07%	11%
PBT	60	59	38	0.27%	55.75%
Tax Expense	15	15	10	0.65%	53.70%
Effective tax rate %	25%	25%	26%	10bps	-34bps
PAT	44	44	28	0.13%	56.47%
Add: Profit/ Loss on Joint Ventures	-0	-1	-1		
Consolidated PAT	44	44	28	1.31%	59.73%
<i>PAT margin %</i>	<i>12%</i>	<i>11%</i>	<i>9%</i>	<i>40bps</i>	<i>270bps</i>
Other Comprehensive Income	0	1	0	-100.00%	-
Profit for the period	44	44	28	-0.01%	59.73%
EPS (Rs)	8	8	5	1.30%	59.59%

Source: Arihant Research, Company Filings

Other Conference Call highlights:

- Q3FY22 Highlights:

- The market right now is slow, and has been hard for unorganized players in terms of production, WC, and labour. Also, RM prices major contributor to price hikes. Yarn contribution to the product is 45%. It was stagnant during December, but is now volatile during January.
- Channel financing received a positive response from distributors. Dollar received 100 leads and bought 55 distributors on board. Expect 150-200 distributors to be on board by end of FY22. Company has entered into an agreement with a large private sector bank for channel financing with an aim to reduce overall receivables.
- EBOs were launched on FOFO model to generate incremental sales. This received a good response.
- They could not open many EBOs because of the pandemic. They were planned in UP and Rajasthan. (Cluster them first, then move pan India).
- Dollar began with the launch of Athleisure in Dollar woman. It has taken well to the market, but isn't complete yet. It is expected to be completed by Q1FY23.
- The joint venture with Pepe: Dollar has a 9% share in the new JV. The reason this will be beneficial is because of the multi brand distributor capabilities with a wide range of products that the company will now have access to. This will boost sales to various channels.
- Revenue Split 9MFY22: Big Boss- 42%, Regular- 34%, Dollar Socks- 2%, Force Wear- 1%, NXT- 3%, Missy- 8%, Pepe-0.14%, Thermal- 10%.
- Revenue Split Q3FY22: Big Boss- 42%, Regular- 34%, Dollar Socks- 2%, Force Wear- 1%, NXT- 2%, Missy- 7%, Thermal- 10%.
- Exports are about 9% of total sales, modern trade is 3%, 88% is domestic sales. Modern trade happens directly from company, and involves no agents.
- The company has achieved highest ever EBITDA & PAT in Q3FY22.

Other Conference Call highlights:

- **Winter wear Performance:** Winter sales weren't as good in November and December, yet the company managed a 3% growth in thermal wear, but the expected growth was 18-20%.
- **Volume and Value Growth:**
 - As per the INR 2000 Cr revenue guidance for FY25, the company is on the right track. They experienced a 34% growth on 9m basis, out of which volume growth was 14% for this, and the rest was price hikes (20%). Q3 volumes grew 11%, and value growth was 12%. Roughly equal contribution is to be expected from volume and price going ahead, hoping that no more waves of COVID come in.
 - In the next 2-3 years, the target volume growth is 12-14%. Price increases are likely to be 5-6%. Also there is an expected change in category and product mix, driven by good growth in athleisure (11% of total sales in 9MFY22).
- **Run Rates and Sustainable Margins:**
 - Dollar plans to cut down ad expenses (especially ad spend) by 5.5-6%. Expect them to be at 5.5% of sales this year. They will try to maintain 6-6.5% expenses at max, and at the INR 2,000 Cr revenue mark, this will come down to 5%. Expect an absolute amount of INR 55- INR 60 Cr on advertisement.
 - EBITDA margins are currently hovering at 17%, and they expect 17-19% margins in the next 3 years.
 - Gross margins will remain at 36-37% going forward.
 - The bullish Revenue target of the management is INR 3,000 Cr to INR 4,000 Cr.
- **Project Lakshya:**
 - 7.5% of the Revenue comes from distributors under Lakshya. Currently they are 115 distributors enrolled, and they expect this number to grow to 125- 150 by the end of FY22. Under the project, they have started mapping in Andhra Pradesh, North East, Bihar, Haryana, and Orissa. They have planned to bring in 200-250 distributors by the end of FY23. 65% of the distributors under Lakshya are new, the rest are old.
 - The company desires that all 1,000+ distributors get enrolled under the project. So far, the response is good. They prefer to pitch to current distributors and go to new distributors if they refuse. Initially, many were sceptical because they are not used to working in an organized manner and hiring 1-2 people under them. There was some initial retaliation but 4-5 months into the program, they understand the benefits of it. The pace of enrolment is expected to increase definitely but the project will not be completed in 2 years, it will need more time.
- **Inventory and Thermal Sales:** Thermal sales are completed by month of November usually, but this time thermal sales were poor. As a result 2-3% of the inventory is thermals right now. However, they expect good sales by 1st and 2nd quarter of next FY. The high inventory should not adversely impact sales.
- **Channels:** Modern retail is currently 3-3.5% of sales (LFS, shop in shop, online sales (d2c) all of it is modern trade). Over 2.5-3 years' time, it will improve to 6-6.5% of total sales. The rest is by domestic channel sales i.e. the distributor system.
- **Retail Reach Expansion:**
 - It will not increase immediately, it is gradual. In Rajasthan the ATV (average transaction value) of retail is INR 7.5-8k, in Karnataka it is about 9K, in Gujarat it is INR 5-5.5k. They are currently focusing on weaker states. Their current retail network might increase to 2-2.5lakh active retailers by FY23-24. Other than retailers, distributors also sell to wholesalers, though the company doesn't encourage it.
 - In 4 years the company wants to reach 4 lakh total retail outlets, which is about a 3x growth. Currently there are 1.2 lakh retail outlets, the company plans to add about 1 lakh every year, and expect project Lakshya distributors to help. They expect the retail outlet reach to double in next 3-4 years.
 - Enrolled, active, and possible retailers are different concepts. Active retail outlets are currently 60-65K in number. Some are less active, and buy once or twice a quarter. Dollar wants more active ones that buy 1-2 times a month.

Key Financials (Consolidated)

Income statement (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,029	967	1,037	1,333	1,609	1,925
Net Raw Materials	645	634	656	813	974	1155
Advt & Promotion	211	186	211	240	290	346
Employee Cost	34	42	45	57	69	83
Other Expenses	215	186	198	233	285	343
EBITDA	136	105	138	229	282	345
EBITDA %	13.2	10.8	13.3	17.2	17.5	17.9
Depreciation	(11)	(14)	(15)	(22)	(30)	(35)
Interest expense	(16)	(15)	(9)	(7)	(6)	(5)
Other income	2	5	3	4	5	6
Share of profits associate & JV	(2)	(2)	(2)	(2)	(2)	(2)
Profit before tax	109	78	115	203	249	309
Taxes	(36)	(20)	(30)	(53)	(65)	(80)
Minorities and other	-	-	-	-	-	-
Reported Net profit	74	57	85	150	184	229
Other Comprehensive income	1	-1	0	0	0	0
Net profit	74	57	86	150	184	229
EPS	13.1	10.0	15.1	26.5	32.5	40.3
Balance sheet (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	11	11	11	11	11	11
Reserves	404	449	525	666	841	1,060
Net worth	416	461	537	678	852	1,071
Minority Interest	0	0	0	0	0	0
Debt	238	226	147	127	112	87
Other non-current liabilities	1	3	2	2	2	2
Deferred tax liab (net)	0	0	0	0	0	0
Total Liabilities	655	690	686	806	966	1,160
Fixed assets	70	69	79	114	160	167
Capital Work In Progress	2	14	15	16	22	25
Other Intangible assets	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Other non current assets	9	18	18	22	27	32
Inventories	325	305	334	242	438	497
Sundry debtors	348	360	331	389	447	519
Loans & Advances	1	1	1	1	1	1
Other current assets	30	42	47	61	73	88
Sundry creditors	(147)	(120)	(140)	(172)	(207)	(246)
Other current liabilities & Provisions	(6)	(10)	(12)	(15)	(19)	(22)
Cash	22	6	7	142	14	88
Other Financial Assets	2	4	5	7	9	11
Total Assets	655	690	686	806	966	1,160

Source: Arianth Research, Company Filings

Cash Flow Statement (INR cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	109	78	115	203	249	309
Depreciation	11	14	15	22	30	35
Tax paid	(36)	(20)	(30)	(53)	(65)	(80)
Working capital Δ	(97)	(28)	16	57	(229)	(102)
Change in Goodwill	-	-	-	-	-	-
Operating Cash Flow	(13)	44	117	229	(15)	161
Capital expenditure	(13)	(25)	(26)	(58)	(83)	(45)
Free cash flow	(25)	19	91	171	(98)	116
Equity raised	(0)	-	0	-	-	-
Investments	-	-	-	-	-	-
Others	(5)	(12)	(1)	(6)	(6)	(7)
Debt financing/disposal	42	(11)	(79)	(20)	(15)	(25)
Dividends paid	(11)	(12)	(10)	(10)	(10)	(10)
Equity Buy back	-	-	-	-	-	-
Capital subsidy	-	-	-	-	-	-
Other items	2	1	(0)	-	-	-
Net Δ in cash	2	(15)	1	135	(128)	75
Opening Cash Flow	20	22	6	7	142	14
Closing Cash Flow	22	6	7	142	14	88

Ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)						
Revenue growth	11.2	(6.0)	7.2	28.6	20.7	19.6
Operating profit growth	9.5	(22.9)	32.0	66.1	22.8	22.3
Net profit growth	(4.9)	(22.1)	48.8	76.3	22.5	24.2
Profitability ratios (%)						
RoCE	14.2	10.5	13.6	21.1	21.5	22.0
RoNW	19.3	13.0	17.2	24.8	24.1	23.8
RoA	11.3	8.2	12.5	18.7	19.1	19.7
Per share ratios						
Dividend per share	1.6	1.7	1.7	1.7	1.7	1.7
Book value per share	73.3	81.3	94.6	119.5	150.2	188.9
Valuation ratios						
P/E	47.0	60.4	40.6	23.0	18.8	15.1
P/CEPS	40.9	48.4	34.3	20.1	16.1	13.1
P/B	8.3	7.5	6.4	5.1	4.1	3.2
EV/EBIDTA	27.1	35.2	26.1	15.0	12.6	10.0
Payout (%)						
Dividend pay-out	14.8	20.3	11.3	6.4	5.2	4.2
Tax payout	32.7	26.2	26.0	26.0	26.0	26.0
Liquidity ratios						
Debtor days	121.6	134.0	114.9	105.0	100.0	97.0
Inventory days	181.3	173.2	183.2	107.0	162.0	155.0
Creditor days	59.5	50.2	55.9	56.0	56.0	56.0
Leverage ratios						
Interest coverage	8.1	6.2	14.4	31.0	43.1	63.7
Net debt / equity	0.5	0.5	0.3	(0.0)	0.1	(0.0)
Net debt / op. profit	1.6	2.1	1.0	(0.1)	0.3	(0.0)

Source: Arianth Research, Company Filings

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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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