

Margin expansion to come in FY24 onward owing to cost optimization initiatives and RM price softening

**CMP: INR 410**

**Rating: BUY**

**Target Price: INR 659**

**Stock Info**

BSE	541403
NSE	DOLLAR
Bloomberg	DOLLARIN
Reuters	DOLL.NS
Sector	Textile
Face Value (INR)	2
Equity Capital (INR Cr)	11.3
Mkt Cap (INR Cr)	2,323
52w H/L (INR)	549 / 310
Avg Daily Vol (in 000')	126

**Shareholding Pattern %**

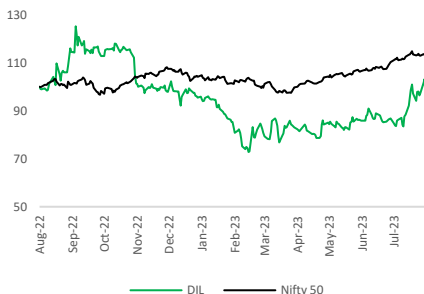
(As on July 2023)

Promoters	73.09
FII	0.49
DII	0.50
Public & Others	25.93

**Stock Performance (%)**

	1m	3m	12m
DIL	13.9	12.1	(4.6)
Nifty 50	-0.7	6.2	8.99

**DIL Vs Nifty 50**



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The company is on the right path with a slight miss on the revenues, with improvement on QoQ basis on inventory losses, channel inventories and margin recovery. DIL's Q1FY24 Revenue from operations was down 9.2% YoY to INR 3,282 Mn (down 19.2% QoQ) Vs our estimate of INR 3,411 Mn. EBITDA was down 27.2% YoY to INR 271 Mn (up 139.9% QoQ) Vs our estimate of INR 241. EBITDA Margin contracted by 200bps YoY to 8.3% (vs 2.8% in Q4FY23) vs our estimate of 7.06%. PAT was down 43.87% YoY to INR 151.3 Mn (vs INR 4.5 Mn in Q4FY23).

**Progress on Project Lakshya:** During Q1FY24 the company added 20 distributors and forayed into newer territories to secure their market share as competitiveness has started to increase. They are now targeting Orissa and the Northeast with a distributor addition of 100-140 in FY24. Currently, the company is sitting with 249 distributors which was 229 distributors in FY23. Project Lakshya's contribution to complete domestic sales increased from 19% in FY23 to 27% in Q1FY24, with a volume growth of 13% on YoY basis.

**Modern trade & E-commerce sales-** The company has consistently grown in this channel, in Q1 FY24 it has seen a growth of 10% and contribution is at 4% to the total sales, the company aspires to take this number to around 7-8% in a period of 2 years.

**Low cotton prices and decrease in ASP:** The company's ASP declined by 15% YoY. In FY23, raw material prices of cotton was around INR 1,10,000 per candy, which is now at INR 55,000 to 60,000 per candy.

**Premium Segment:** The company's premium segment brand Force Neck gave a volume growth of 52% for Q1 FY24. They are confident that the premium segment will help them in achieving this volume growth in the future as well, which will further drive the margins.

**Advertisement to improve brand visibility and impact:** The company's advertisement expenses for Q1FY24 stood at INR 265.3 Mn whereas it was INR 248.9 Mn in Q1FY23. However, the company maintains a yearly target for advertisement at around 6-6.5% of the revenue.

**Valuation & Outlook:** We can expect good thermal sales this year, with orders coming in the beginning of Q3. Brand awareness will increase with increasing ad spending and growing EBO count which will further increase the average ticket value which is currently at INR 1,200 per bill. Cotton prices continue to normalize, and the expansion of Project Lakshya will lead to cost savings and efficiencies. Margins and ASPs have bottomed out at this level and are only expected to go up from here. Once capex finishes up there will also be economies of scale in the next few years. We assign a TP of INR 659 valued at a P/E multiple of 25x the FY26E EPS of INR 26.3. Investors should BUY the stock.

INR Cr	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,037	1,350	1,394	1,499	1,683	1,923
YoY growth (%)	7.2	30.2	3.2	7.6	12.3	14.2
Operating profit	138	220	98	153	192	241
OPM (%)	13.3	16.3	7.0	10.2	11.4	12.5
Reported PAT	86	148	53	88	113	149
YoY growth (%)	50.7	72.8	(64.1)	65.7	28.7	31.9
EPS (Rs)	15.1	26.1	9.4	15.5	20.0	26.3
P/E (x)	23.1	13.4	37.3	22.5	17.5	13.2
Price/Book (x)	3.7	2.9	2.8	2.5	2.2	1.9
EV/EBITDA (x)	15.4	10.1	22.2	14.0	10.6	8.3
Debt/Equity (x)	0.3	0.4	0.3	0.2	0.2	0.1
RoE (%)	17.2	24.5	7.5	11.6	13.4	15.5

Source: Arihant Research, Company Filings

## Q1FY24 - Quarterly Performance (INR Mn)

Particulars (in INR million)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
<b>Total Revenue</b>	<b>3,282.4</b>	<b>4,063.8</b>	<b>3,616.7</b>	<b>-19.2%</b>	<b>-9.2%</b>
Raw Material	1,548	2,438	1,793	-36.5%	-13.7%
<b>Gross Profit</b>	<b>1,735</b>	<b>1,626</b>	<b>1,823</b>	<b>6.7%</b>	<b>-4.9%</b>
<b>Gross Margin</b>	<b>52.85%</b>	<b>40.00%</b>	<b>50.42%</b>	<b>1285bps</b>	<b>-1042bps</b>
Sub-Contract Expenses	673.07	628.34	596.53	7.1%	12.8%
Employee cost	211	210	185	0.6%	14.0%
Other Expenses	579	674	669	-14.1%	-13.4%
<b>EBITDA</b>	<b>271</b>	<b>113</b>	<b>372</b>	<b>139.9%</b>	<b>-27.2%</b>
<b>EBITDA margin %</b>	<b>8.3%</b>	<b>2.8%</b>	<b>10.3%</b>	<b>548bps</b>	<b>-203bps</b>
Depreciation	42	43	43	-2.0%	-1.7%
<b>EBIT</b>	<b>229</b>	<b>70</b>	<b>330</b>	<b>225.8%</b>	<b>-30.4%</b>
<b>EBIT margin %</b>	<b>7.0%</b>	<b>1.7%</b>	<b>9.1%</b>	<b>525bps</b>	<b>-213bps</b>
Other Income	7	13	26	-46.8%	-73.9%
Equity account investment	-8	-29	-9	-73.5%	-13.9%
Finance costs	35	34	30	2.3%	16.4%
<b>PBT</b>	<b>193</b>	<b>20</b>	<b>316</b>	<b>890.9%</b>	<b>-38.9%</b>
Tax Expense	42	15	47	182.8%	-9.6%
Effective tax rate %	21.8%	76.4%	14.7%	-5459bps	706bps
<b>PAT</b>	<b>151</b>	<b>5</b>	<b>270</b>	<b>3181.1%</b>	<b>-43.9%</b>
<b>PAT margin %</b>	<b>4.6%</b>	<b>0.1%</b>	<b>7.5%</b>	<b>449bps</b>	<b>-285bps</b>
EPS (INR)	2.6	0.1	4.8	2460.0%	-46.1%

Source: Arihant Research, Company Filings

## Q1FY24 Concall highlights:

- **Revenue Contribution-** Dollar Always- 42%, Dollar Man- 40.4%, Dollar Woman- 9.9%, Force Nxt- 4% and Dollar Protect- 2.8%
- **Capex & Expansion-** INR 500 Mn investment towards an integrated warehouse in West Bengal which is expected to get commissioned in FY24. INR 650 Mn investment in increasing the spinning capacity from 22,000 spindles to 42,000 spindles which is expected to be commissioned in FY24. INR 350 Mn investment in increasing the company's solar capacity from 6 MW to 12 MW which is expected to be commissioned within 1 year.
- **EBO-** The company successfully launched 17 EBOs, two each in Delhi, Madhya Pradesh & Punjab One each in UP, Rajasthan, Maharashtra, Gujarat, Haryana & Odisha. The EBO set up is under FOFO model (Franchise-owned franchise-operated). The company aims to have 125 EBOs by 2025 to cater the demands of consumer and generate sales, increase the brand awareness at the same time.
- **Joint Venture with GOAT-** The company entered into a 51-49 JV with G.O.A.T Brands Lab Pte for Pepe Jeans Inner fashion, G.O.A.T Brands Lab Pte acquired 50% stake in Pepe and additional 2% non-voting equity, with this the company would undertake business operations in the regions of India, Sri Lanka, Bhutan, Nepal, and Bangladesh.
- This partnership will widen the company's supply of finished goods directly to end consumers through D2C channels.

Income statement (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>10,370</b>	<b>13,500</b>	<b>13,940</b>	<b>14,990</b>	<b>16,830</b>	<b>19,230</b>
Net Raw Materials	6,560	8,830	9,810	10,020	10,920	12,280
Advt & Promotion	2,110	2,690	2,230	2,520	2,670	3,050
Employee Cost	450	640	770	820	1,000	1,140
Other Expenses	1,980	1,830	2,380	2,630	3,000	3,410
<b>EBITDA</b>	<b>1,380</b>	<b>2,200</b>	<b>980</b>	<b>1,530</b>	<b>1,920</b>	<b>2,410</b>
<b>EBITDA %</b>	<b>13.3</b>	<b>16.3</b>	<b>7</b>	<b>10.2</b>	<b>11.4</b>	<b>12.5</b>
Depreciation	-150	-170	-180	-280	-380	-430
Interest expense	-90	-100	-140	-130	-110	-90
Other income	30	70	50	60	70	80
Share of profits associate & JV	-20	-20	-60	-60	-60	-60
<b>Profit before tax</b>	<b>1,150</b>	<b>1,980</b>	<b>660</b>	<b>1,120</b>	<b>1,440</b>	<b>1,910</b>
Taxes	-300	-510	-130	-250	-320	-420
<b>Reported Net profit</b>	<b>850</b>	<b>1,470</b>	<b>520</b>	<b>870</b>	<b>1,130</b>	<b>1,490</b>
Other Comprehensive income	-	10	10	10	10	10
<b>Net profit</b>	<b>860</b>	<b>1,480</b>	<b>530</b>	<b>880</b>	<b>1,130</b>	<b>1,490</b>
<b>EPS</b>	<b>15.1</b>	<b>26.1</b>	<b>9.1</b>	<b>15.3</b>	<b>19.7</b>	<b>26.1</b>

Balance sheet Consolidated (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	110	110	110	110	110	110
Reserves	5,250	6,600	6,960	7,730	8,750	10,140
<b>Net worth</b>	<b>5,370</b>	<b>6,710</b>	<b>7,070</b>	<b>7,840</b>	<b>8,870</b>	<b>10,250</b>
Debt	1,480	2,370	2,010	1,710	1,410	1,110
Other non-current liabilities	20	40	110	110	110	110
<b>Total Liabilities</b>	<b>6,870</b>	<b>9,130</b>	<b>9,200</b>	<b>9,680</b>	<b>10,410</b>	<b>11,490</b>
Fixed assets	790	810	830	2,860	3,490	3,770
Capital Work In Progress	150	520	880	810	510	580
Other non current assets	180	320	450	150	160	190
<b>Net working capital</b>	<b>5,620</b>	<b>7,400</b>	<b>6,980</b>	<b>5,670</b>	<b>5,290</b>	<b>5,950</b>
Inventories	3,340	4,750	3,580	3,480	3,030	3,070
Sundry debtors	3,310	4,020	4,280	3,750	3,970	4,810
Other current assets	480	610	650	710	790	910
Sundry creditors	-1,390	-1,760	-1,380	-2,090	-2,320	-2,620
Other current liabilities & Provisions	-120	-220	-160	-170	-190	-220
Cash	70	10	10	110	860	910
Other Financial Assets	50	60	50	80	90	110
<b>Total Assets</b>	<b>6,870</b>	<b>9,130</b>	<b>9,200</b>	<b>9,680</b>	<b>10,410</b>	<b>11,490</b>

Cashflow Consolidated (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,150	1,980	660	1,120	1,440	1,910
Depreciation	150	170	180	280	380	430
Tax paid	-300	-510	-130	-250	-320	-420
Working capital Δ	160	-1,780	430	1,310	380	-660
<b>Operating cashflow</b>	<b>1,160</b>	<b>-140</b>	<b>1,130</b>	<b>2,470</b>	<b>1,890</b>	<b>1,260</b>
Capital expenditure	-260	-570	-550	-2,250	-710	-780
<b>Free cash flow</b>	<b>900</b>	<b>-710</b>	<b>580</b>	<b>220</b>	<b>1,180</b>	<b>480</b>
Equity raised	-	30	-70	-10	-10	-10
Others	-10	-150	-120	270	-30	-40
Debt financing/disposal	-780	890	-360	-300	-300	-300
Dividends paid	-100	-170	-100	-100	-100	-100
Other items	-	30	80	20	10	10
<b>Net Δ in cash</b>	<b>10</b>	<b>-70</b>	<b>10</b>	<b>100</b>	<b>750</b>	<b>50</b>
<b>Opening Cash Flow</b>	<b>60</b>	<b>70</b>	<b>10</b>	<b>10</b>	<b>110</b>	<b>860</b>
<b>Closing Cash Flow</b>	<b>70</b>	<b>10</b>	<b>10</b>	<b>110</b>	<b>860</b>	<b>910</b>

Source: Arihant Research, Company Filings

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>						
Revenue growth	7.2	30.2	3.2	7.6	12.3	14.2
Operating profit growth	32.0	59.2	(55.3)	55.9	25.4	25.3
Net profit growth	48.8	72.4	(64.3)	66.6	28.9	32.1
<b>Profitability ratios (%)</b>						
RoCE	13.6	19.5	7.5	10.9	12.7	14.8
RoNW	17.2	24.5	7.5	11.6	13.4	15.5
RoA	12.5	16.2	5.6	9.0	10.8	12.9
<b>Per share ratios</b>						
Dividend per share	1.7	3.0	1.7	1.7	1.7	1.7
Book value per share	94.6	118.3	124.7	138.3	156.3	180.7
<b>Valuation ratios</b>						
P/E	23.1	13.4	37.3	22.5	17.5	13.2
P/CEPS	19.6	12.1	28.2	17.1	13.1	10.3
P/B	3.7	2.9	2.8	2.5	2.2	1.9
EV/EBIDTA	15.4	10.1	22.2	14.0	10.6	8.3
<b>Payout (%)</b>						
Dividend payout	11.3	11.6	18.4	11.0	8.6	6.5
Tax payout	26.0	25.8	20.1	22.0	22.0	22.0
<b>Liquidity ratios</b>						
Debtor days	114.9	107.2	110.6	90.0	85.0	90.0
Inventory days	183.2	193.7	131.3	125.0	100.0	90.0
Creditor days	55.5	56.1	38.2	56.0	56.0	56.0
<b>Leverage ratios</b>						
Interest coverage	14.4	21.8	6.0	10.0	14.7	23.2
Net debt / equity	0.3	0.4	0.3	0.2	0.1	0.0
Net debt / op. profit	1.0	1.1	2.0	1.0	0.3	0.1
<b>Balance sheet Consolidated (INR cr)</b>						
Tax burden (x)	0.7	0.7	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.9	0.8	0.9	0.9	0.9
EBIT margin (x)	0.1	0.2	0.1	0.1	0.1	0.1
Asset turnover (x)	1.3	1.4	1.3	1.4	1.4	1.4
Financial leverage (x)	1.6	1.6	1.5	1.5	1.5	1.4
<b>RoE (%)</b>	<b>17.2</b>	<b>24.4</b>	<b>7.6</b>	<b>11.7</b>	<b>13.5</b>	<b>15.6</b>

Source: Arianth Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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