

**CMP: INR 461**

**Rating: BUY**

**Target Price: INR 700**

**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)	2,615
52w H/L (INR)	511/ 310
Avg Daily Vol (in 000')	105

**Shareholding Pattern %**

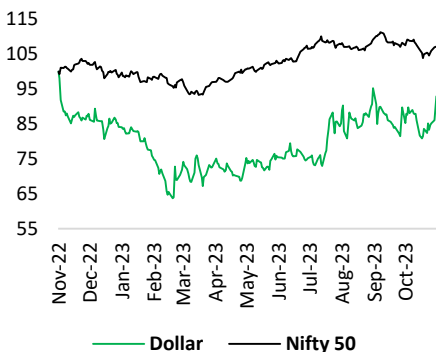
(As on September 2023)

Promoters	73.09
FII	0.33
DII	0.57
Public & Others	26.00

**Stock Performance (%)** 1m 3m 12m

Dollar Industries	3.6	9.2	(8.0)
Nifty 50	(1.1)	(0.7)	6.8

**DIL Vs Nifty 50**



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**A terrific performance ahead of industry recovery supported by good thermal and premium sales; notable inventory gains aid margin expansion.** Revenue was up 20.65% YoY to INR 413 Cr, beating our estimate of INR 380 Cr by 8.6% (+25.68% QoQ). EBITDA was up 37.67% YoY to INR 42 Cr, beating our estimate of INR 40 Cr by 4.3% (+53.97% QoQ). EBITDA Margin expanded 125bps to 10.12%, marginally missing our estimate of 10.43% (+186bps QoQ). PAT was up 43.89% to INR 25 Cr, marginally missing our estimate of INR 26 Cr. (+64.39% QoQ). **Volumes for the quarter were up 40%, and there is now no more high-cost inventory in the system.**

**Working Capital cycle to improve with the spread of Project Lakshya and the removal of high coast inventory:** Debtor days have come down to 90 vs 99 during COVID. As Project Lakshya continues, these will come down to 75 days, which is the days of distributors within the project. Currently, 271/1,500 distributors are under this project (vs 229 as of FY23), and the company aims to bring ~60% of all distributors into the project by FY25. Most of the distributors in Project Lakshya are also a part of the channel financing scheme which further aids this improvement. The company is also at 147 inventory days vs 167 days last year owing to the removal of high-value inventory from the distributor network. This won't return as cotton and yarn prices will remain range-bound from hereon.

**Push to premium:** The revenue mix for the quarter was- Big Boss 36%, Always 38%, Force Nxt 4%, Missy 9%, and Thermals 11%. The premium offering constitutes Force Nxt (18-20% margin), womenswear (14-17% margin), and thermals (15-18% margin). These saw high double-digit volume growth during the quarter and are a focal point for the company's future.

**EBO Success:** So far, they have 18 EBOs from the initial launch in Q4FY22 and they have been well received. The number is targeted to reach ~22 by the end of FY24. The stores have an average revenue of INR 2-2.5 Lakh and an ATV of INR 1,200. The premiumization imitative is taking place through them with custom items like polo shirts being made available here that aren't accessible on GT.

**Valuation & Outlook:** We expect to see a stable H2 with a push toward premiumization with the pick up of Force Nxt, womenswear, and thermals. With EBOs seeing good acceptance among the masses, there should be significant improvements in profitability as well. The earlier guidance of low double-digit revenue growth and 10% margins. We assign a TP of INR 700 valued at a P/E multiple of 25x the FY26E EPS of INR 28, yielding an upside of 52%, and a 'Buy' rating.

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,350	1,394	1,500	1,708	1,950
YoY growth (%)	30.2	3.2	7.6	13.8	14.2
Operating profit	220	98	142	195	244
OPM (%)	16.3	7.0	9.5	11.4	12.5
Reported PAT	148	53	83	121	159
YoY growth (%)	72.8	(64.1)	56.4	45.8	31.2
EPS (Rs)	26.1	9.4	14.6	21.3	28.0
P/E (x)	17.7	49.2	31.5	21.6	16.5
Price/Book (x)	3.9	3.7	3.4	3.0	2.6
EV/EBITDA (x)	13.0	28.6	18.8	13.6	10.6
Debt/Equity (x)	0.4	0.3	0.3	0.3	0.2
RoE (%)	24.5	7.5	11.1	14.5	16.7

Source: Arihant Research, Company Filings

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
<b>Revenue from Operations</b>	<b>413</b>	<b>328</b>	<b>342</b>	<b>25.68%</b>	<b>20.65%</b>
Raw Material Cost	190	155	178	22.65%	6.41%
Gross Profit	223	173	164	28.38%	36.18%
Gross Margin	53.99%	52.85%	47.83%	114bps	616bps
Sub Contract Expenses	88	67	57	30.97%	53.50%
Employee cost	22	21	19	6.20%	21.26%
Other Expenses	70	58	57	21.49%	22.87%
<b>EBITDA</b>	<b>42</b>	<b>27</b>	<b>30</b>	<b>53.97%</b>	<b>37.67%</b>
<i>EBITDA margin %</i>	<i>10.12%</i>	<i>8.26%</i>	<i>8.87%</i>	<i>186bps</i>	<i>125bps</i>
Other Income	1	1	0	-20.53%	34.96%
Depreciation	4	4	4	2.18%	-1.76%
<b>EBIT</b>	<b>38</b>	<b>24</b>	<b>26</b>	<b>61.04%</b>	<b>44.13%</b>
Finance cost	4	3	4	11.96%	0.96%
Profit/ Loss on equity investment	-1	-1	-1	-11.08%	3.47%
<b>PBT</b>	<b>33</b>	<b>19</b>	<b>22</b>	<b>72.75%</b>	<b>52.99%</b>
Tax Expense	9	4	5	102.73%	87.48%
Effective tax rate %	26%	22%	21%	378bps	470bps
<b>PAT</b>	<b>25</b>	<b>15</b>	<b>17</b>	<b>64.39%</b>	<b>43.89%</b>
<i>PAT margin %</i>	<i>6.02%</i>	<i>4.60%</i>	<i>5.05%</i>	<i>142bps</i>	<i>97bps</i>
<b>EPS (INR)</b>	<b>4.38</b>	<b>2.56</b>	<b>3.05</b>	<b>71.09%</b>	<b>43.61%</b>

Source: Arihant Research, Company Filings

#### Operational highlights:

- **The steady state** of margins is 14-15%, with INR 2,000 Cr in revenues by FY26. There will be a price increase of 3-4% each year.
- About 20-22% of the production is **vertically integrated**. There will be no further integration as it is easier to scale with or down with job work.
- There were **no price hikes** taken during Q3, and going forward there will be no price hikes/ cuts. There will be hikes in ASP with the growing share of premium products.
- **Target export revenues** by FY26 are 11% of sales, with a presence in 30 countries.
- There has been not much change in **yarn prices** during the quarter.
- They have recently entered the **African market**, and are seeing a good response there, especially with kidswear. The Middle Eastern market is also seeing a good response with kidswear.
- **ASP:** Dollar Man INR 80, Dollar Always INR 50, Dollar Missy INR 110, Force Nxt INR 285, Socks INR 35. There has been an ASP decline of 15% at the company level in Q2.
- The volume split of **outerwear to innerwear** is 19-81, and the value split is 21-79. The share of outerwear is targeted to go to 25%

## Key Financials (Consolidated)

Income statement (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,350</b>	<b>1,394</b>	<b>1,500</b>	<b>1,708</b>	<b>1,950</b>
Net Raw Materials	883	981	1012	1042	1189
Advt & Promotion	269	223	315	307	370
Employee Cost	64	77	45	102	117
Other Expenses	183	238	300	369	400
<b>EBITDA</b>	<b>220</b>	<b>98</b>	<b>142</b>	<b>195</b>	<b>244</b>
<b>EBITDA %</b>	<b>16.3</b>	<b>7.0</b>	<b>9.5</b>	<b>11.4</b>	<b>12.5</b>
Depreciation	(17)	(18)	(16)	(21)	(25)
Interest expense	(10)	(14)	(19)	(19)	(17)
Other income	7	5	4	5	6
Share of profits associate & JV	(2)	(6)	(6)	(6)	(6)
<b>Profit before tax</b>	<b>198</b>	<b>66</b>	<b>106</b>	<b>154</b>	<b>203</b>
Taxes	(51)	(13)	(23)	(34)	(45)
<b>Reported Net profit</b>	<b>147</b>	<b>52</b>	<b>82</b>	<b>120</b>	<b>158</b>
<b>EPS</b>	<b>26.1</b>	<b>9.1</b>	<b>14.4</b>	<b>21.1</b>	<b>27.8</b>

Balance sheet Consolidated (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	11	11	11	11	11
Reserves	660	696	761	863	1,004
<b>Net worth</b>	<b>671</b>	<b>707</b>	<b>772</b>	<b>875</b>	<b>1,015</b>
Debt	237	201	251	221	191
Other non-current liabilities	4	11	11	11	11
<b>Total Liabilities</b>	<b>913</b>	<b>920</b>	<b>1,036</b>	<b>1,109</b>	<b>1,219</b>
Fixed assets	81	83	165	224	268
Capital Work In Progress	52	88	79	69	41
Other non current assets	32	45	25	28	32
<b>Net working capital</b>	<b>740</b>	<b>698</b>	<b>580</b>	<b>596</b>	<b>651</b>
Inventories	475	358	366	347	363
Sundry debtors	402	428	375	427	487
Loans & Advances	0	0	1	1	1
Other current assets	61	65	67	76	87
Sundry creditors	(176)	(138)	(211)	(235)	(265)
Other current liabilities & Provisions	(22)	(16)	(17)	(20)	(23)
Cash	1	1	183	187	222
Other Financial Assets	6	5	4	5	5
<b>Total Assets</b>	<b>913</b>	<b>920</b>	<b>1,036</b>	<b>1,109</b>	<b>1,219</b>

Cashflow Consolidated (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	198	66	106	154	203
Depreciation	17	18	16	21	25
Tax paid	(51)	(13)	(23)	(34)	(45)
Working capital Δ	(178)	43	118	(16)	(55)
<b>Operating cashflow</b>	<b>(14)</b>	<b>113</b>	<b>216</b>	<b>125</b>	<b>128</b>
Capital expenditure	(57)	(55)	(89)	(69)	(41)
<b>Free cash flow</b>	<b>(71)</b>	<b>58</b>	<b>127</b>	<b>56</b>	<b>87</b>
Equity raised	3	(7)	(1)	(1)	(1)
Others	(15)	(12)	21	(4)	(5)
Debt financing/disposal	89	(36)	50	(30)	(30)
Dividends paid	(17)	(10)	(17)	(17)	(17)
Other items	3	8	2	1	1
<b>Net Δ in cash</b>	<b>(7)</b>	<b>1</b>	<b>182</b>	<b>4</b>	<b>34</b>
<b>Opening Cash Flow</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>183</b>	<b>187</b>
<b>Closing Cash Flow</b>	<b>1</b>	<b>1</b>	<b>183</b>	<b>187</b>	<b>222</b>

Source: Arian Research, Company Filings

## Ratios

Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	30.2	3.2	7.6	13.8	14.2
Operating profit growth	59.2	(55.3)	45.0	36.6	25.2
Net profit growth	72.4	(64.3)	57.1	46.1	31.3
<b>Profitability ratios (%)</b>					
RoCE	19.5	7.5	10.5	13.2	15.2
RoNW	24.5	7.5	11.1	14.5	16.7
RoA	16.2	5.6	7.9	10.8	12.9
<b>Per share ratios</b>					
Dividend per share	3.0	1.7	3.0	3.0	3.0
Book value per share	118.3	124.7	136.1	154.2	179.0
<b>Valuation ratios</b>					
P/E	17.7	49.2	31.5	21.6	16.5
P/CEPS	16.0	37.3	26.6	18.5	14.3
P/B	3.9	3.7	3.4	3.0	2.6
EV/EBIDTA	13.0	28.6	18.8	13.6	10.6
<b>Payout (%)</b>					
Dividend payout	11.6	18.4	20.6	14.1	10.8
Tax payout	25.8	20.1	22.0	22.0	22.0
<b>Liquidity ratios</b>					
Debtor days	107.2	110.6	90.0	90.0	90.0
Inventory days	193.7	131.3	130.0	120.0	110.0
Creditor days	56.1	38.2	56.0	56.0	56.0
<b>Leverage ratios</b>					
Interest coverage	21.8	6.0	6.8	9.5	13.6
Net debt / equity	0.4	0.3	0.1	0.0	(0.0)
Net debt / op. profit	1.1	2.0	0.5	0.2	(0.1)
<b>Du-Pont Analysis</b>					
Tax burden (x)	0.7	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.8	0.8	0.9	0.9
EBIT margin (x)	0.2	0.1	0.1	0.1	0.1
Asset turnover (x)	1.4	1.3	1.3	1.3	1.4
Financial leverage (x)	1.6	1.5	1.5	1.6	1.5
<b>RoE (%)</b>	<b>24.4</b>	<b>7.6</b>	<b>11.1</b>	<b>14.6</b>	<b>16.7</b>

Source: Arihant 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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