

**CMP: INR 485**

**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')	124

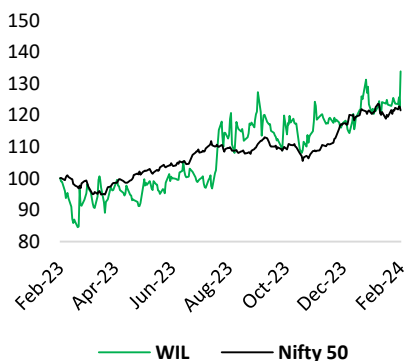
**Shareholding Pattern %  
(As on September 2023)**

Promoters	73.09
FII	0.48
DII	0.58
Public & Others	25.85

**Stock Performance (%)**

	1m	6m	12m
Dollar Industries	10.2	13.2	34.7
Nifty 50	0.8	10.6	21.4

**DIL Vs Nifty 50**



**Abhishek Jain**

[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)

022 67114872

**Anushka Chitnis**

[Anushka.chitnis@arihantcapital.com](mailto:Anushka.chitnis@arihantcapital.com)

022 67114870

The company saw volume growth of 30% YoY with an increase in gross margin. QoQ should not be compared due to seasonality. However, the results were slightly below our estimates. Revenue was up 16.3% YoY to INR 332 Cr (-19.7% QoQ), slightly below our estimates of INR 337 Cr. EBITDA demonstrated YoY growth of 71.7% to reach INR 33Cr (-22.3% QoQ) and below the estimated figure of INR 37 Cr by -11.8%. EBITDA Margin is up by 317bps YoY to 9.8% (-33bps QoQ), underperforming our estimate of 11%. PAT stood at INR 18 Cr (vs INR 8 Cr in Q3FY23 and INR 25 Cr in Q2FY24) which was below our estimates of INR 22Cr by 19.3%. Results were affected by seasonal products but Q4 is anticipated to be positive.

**Expansion of Lakshya Project:** The Lakshya project saw progress in Q3 FY24, with 9 new distributors added, bringing the total to 280, up from 229 in FY23. Lakshya's contribution to domestic sales rose from 19% in FY23 to 27% in the first nine months of FY24 and 29% in Q3 FY24. Presently operational in 13 states, the aim is for Lakshya distributors to contribute 65%- 70% of revenue by FY26. Southern India, historically underserved, contributed approximately 9% to revenue in the first nine months of FY24. However, the project was planned to be completed in 4 years but there was a delay in the project due to covid and other operating problems.

**Anticipated Mitigation of Price Cut and Planned Price Hike for FY25:** The company expects to mitigate the negative impact of price cuts on revenue growth by H1 of FY25, potentially leaning towards the second quarter. This indicates an anticipation of improved revenue growth dynamics thereafter. ASP Was INR 71 in FY22 Vs INR 69 in FY23 and it is INR 68-69 for 9MFY24.

**Guidance:** The company maintains its guidance for revenue of INR 2,000 Cr in FY26 with an EBITDA margin of 13-14%, and expects 12-13% revenue growth for FY25. They have an FY24 guidance of 11-12% which entails INR 500Cr for Q4 (Volume growth is projected at 25%, offset by a 6% decline in realization) with an EBITDA margin of 14% and 10%-11% for FY24.

**Valuation & Outlook:** We anticipate that the company will achieve guided revenue growth due its foray into new markets with new products, stabilized cotton prices, improved market sentiment among distributors, and a focus on premiumization. Along with all this, project Lakshya will help in revenue and profitability growth. 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 45%, 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)	18.6	51.7	33.1	22.7	17.3
Price/Book (x)	4.1	3.9	3.6	3.1	2.7
EV/EBITDA (x)	13.6	30.0	19.8	14.3	11.1
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)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y	Q3FY24E	Surprise
<b>Revenue from Operations</b>	<b>332</b>	<b>413</b>	<b>285</b>	<b>-19.63%</b>	<b>16.19%</b>	<b>337</b>	<b>-1.62%</b>
Raw Material Cost	136	190	156	-28.13%	-12.69%	152	-10.05%
Gross Profit	195	223	129	-12.38%	51.16%	185	5.28%
<i>Gross Margin</i>	<i>58.86%</i>	<i>53.99%</i>	<i>45.24%</i>	<i>487bps</i>	<i>1361bps</i>	<i>55.00%</i>	<i>386bps</i>
Sub Contract Expenses	83	88	43	-6.02%	91.94%	67	22.92%
Employee cost	22	22	19	-1.47%	17.09%	24	-6.27%
Other Expenses	58	70	48	-18.22%	20.83%	57	0.47%
<b>EBITDA</b>	<b>33</b>	<b>42</b>	<b>19</b>	<b>-21.85%</b>	<b>68.05%</b>	<b>37</b>	<b>-12.00%</b>
<i>EBITDA margin %</i>	<i>9.84%</i>	<i>10.12%</i>	<i>6.80%</i>	<i>-28bps</i>	<i>304bps</i>	<i>11.00%</i>	<i>-116bps</i>
Other Income	1	1	1	131.683%	122.277%	1	22.63%
Depreciation	6	4	5	44.620%	29.213%	4	54.37%
<b>EBIT</b>	<b>28</b>	<b>38</b>	<b>15</b>	<b>-27.179%</b>	<b>82.249%</b>	<b>34</b>	<b>-18.78%</b>
Finance cost	5	4	4	25.185%	22.378%	4	21.72%
Profit/ Loss on equity investment	-0	-1	-1	-81.651%	-87.309%	-1	-87.31%
<b>PBT</b>	<b>23</b>	<b>33</b>	<b>10</b>	<b>-32.146%</b>	<b>122.203%</b>	<b>29</b>	<b>-22.00%</b>
Tax Expense	5	9	2	-42.476%	99.077%	7.27	-32.36%
Effective tax rate %	22%	26%	24%	-389bps	-252bps	25%	-332bps
<b>PAT</b>	<b>18</b>	<b>25</b>	<b>8</b>	<b>-28.60%</b>	<b>129.58%</b>	<b>22</b>	<b>-18.54%</b>
<i>PAT margin %</i>	<i>5.34%</i>	<i>6.02%</i>	<i>2.71%</i>	<i>-68bps</i>	<i>263bps</i>	<i>6.45%</i>	<i>-111bps</i>

Source: Arihant Research, Company Filings

#### Q3FY24 Concall highlights:

- Stable raw material prices led to a 375 bps increase in **gross profit margin** YoY, reaching 33.9% in Q3 FY24.
- **EBO count** currently stands at 18 and can see an addition of 5-6 new EBOs in Q1FY25.
- In Q3FY24, **advertising expenses** were INR 19 crores, slightly lower than INR 20 crores in Q3 FY23. The annual target for advertising expenditure remains within 6-6.5%.
- In Q3FY24, **modern trade and e-commerce sales** comprised 7.5% of total sales, vs 4.4% in the 9MFY24. The target is to reach 8% by FY26.
- The **cash conversion cycle** improved to 155 days in Q3 FY24 from 170 days in Q3FY23, driven by a 14-day reduction in inventory days. The company aims to achieve a working capital cycle of 120 days, targeting debtors days of 65 days and inventory days of 90-95 days by FY26.
- The decision to appoint **Safali Khan as the brand ambassador** has yielded good results with economy segment revenue increasing by more than 24% YoY.
- The response to **Force NXT activewear and women's athletic products** has been positive, with a 60% YoY growth in value and a 54% increase in volume.
- Approximately 20% to 30% of manufacturing production is in-house, while 70% is outsourced through job work, providing **flexibility to adjust capacity** as needed without constraints.

## 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: Arihant 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	18.6	51.7	33.1	22.7	17.3
P/CEPS	16.8	39.2	28.0	19.5	15.0
P/B	4.1	3.9	3.6	3.1	2.7
EV/EBIDTA	13.6	30.0	19.8	14.3	11.1
<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: Arian Research, Company Filings

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880