

**CMP: INR 477**

**Rating: Hold**

**Target Price: INR 516**

**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)	2,703
52w H/L (INR)	666 / 268
Avg Yearly Vol (in 000')	221

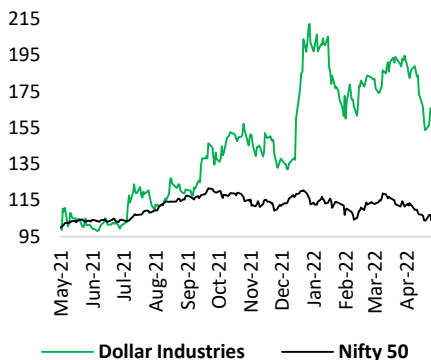
**Shareholding Pattern %**

(As on March, 2022)

Promoters	72.91
FII	0.30
DII	1.70
Public & Others	25.09

Stock Performance (%)	1m	3m	12m
Dollar Industries	(18.8)	(1.1)	58.2
Nifty 50	(4.4)	(5.0)	6.7

**Dollar Industries Vs Nifty 50**



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- **Dollar industries** has reported revenue growth of 21% YoY to INR 373 Cr and was above our estimate of INR 356 cr. Dollar man continued to lead revenue growth and its share in the total sales stood at 43%. In terms of geography, North India has a 44% share in revenue and East India has a 24% share in revenue.
- EBITDA for the quarter grew by 78% YoY and declined by 14% QoQ to INR 55 Cr as compared to our estimate of INR 61 Cr. EBITDA margin for the quarter came in at 14.9%, higher by 475 bps YoY. On a sequential basis, EBITDA margin has declined by 198bps due to higher staff cost and sub contract expenses.
- Company has reported profit growth of 85% YoY to INR 37 Cr and was lower than our estimate of INR 42 cr.

**Q4FY22 Earnings Call Highlights:**

**Volume and Value mix:** There was a de-growth of 1.5-2% in Q4. In FY22, there was volume growth of ~9%. The remaining ~21% growth was through pricing action.

**Expected Growth and target margins for FY23:** Company expect ~15-17% revenue growth on conservative basis. Volume growth is expected to be in the range of 9-10%. Price growth will be 8-9% (accounting for possible price hikes). The price hikes to be taken depend on the market scenario. Margins are expected to be at 17-17.5%.

**Export market:** Exports grew 1.12x this year. Currently, company is focusing on the African market as it is the largest exporter. The company wants to open 12 franchises in the west and south Africa in the next 2 years. They also see a potential opportunity with the export of fabrics.

**Valuation & View:** Dollar has handled the current cotton price volatility well, by taking frequent pricing actions and passing on increases which has mitigated the impact on margins to an extent. Volumes are likely to follow up in FY23. However, margin pressures will continue to prevail. Dollar is looking for brand development and premiumization with new product launches and growing the active retail network. Improvement in the working capital cycle by increasing the number of distributors to the channel financing and project Lakshay initiatives is underway.

**We cut our FY23E/24E EPS estimates by 6%/7% respectively to factor in margin pressure. We downgrade our rating on the stock from Buy to Hold with a revised target price of INR 516 (Earlier INR 807), based on PE of 17x FY23E EPS of INR 30.**

INR Cr	FY20	FY21	FY22	FY23E	FY24E
Revenue	967	1,037	1,350	1,585	1,874
YoY growth (%)	(6.0)	7.2	30.2	17.4	18.2
Operating profit	105	138	220	263	320
OPM (%)	10.8	13.3	16.3	16.6	17.1
Reported PAT	57	86	148	173	214
YoY growth (%)	(23.5)	50.7	72.8	17.0	23.8
EPS (Rs)	10.1	15.0	25.9	30.4	37.7
P/E (x)	47.1	31.7	18.4	15.7	12.6
Price/Book (x)	5.9	5.0	4.0	3.2	2.6
EV/EBITDA (x)	28.0	20.6	13.4	10.9	8.6
Debt/Equity (x)	0.5	0.3	0.4	0.3	0.2
RoE (%)	13.0	17.2	24.5	22.8	22.9

Source: Arihant Research, Company Filings

## Q4FY22 - Quarterly Performance (INR Cr)

INR Cr (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
<b>Revenue from Operations</b>	<b>373</b>	<b>382</b>	<b>308</b>	<b>-2.37%</b>	<b>20.98%</b>
Raw Material Cost	171	187	132	-8.26%	29.92%
Gross Profit	202	195	176	3.27%	14.30%
Gross Margin	54.07%	51.12%	57.23%	295bps	-316bps
Sub Contract Expenses	82	64	69	27.25%	18.68%
Employee cost	19	17	14	10.41%	36.55%
Other Expenses	46	50	63	-7.98%	-26.95%
<b>EBITDA</b>	<b>55</b>	<b>64</b>	<b>31</b>	<b>-13.88%</b>	<b>77.94%</b>
EBITDA margin %	14.85%	16.83%	10.09%	-198bps	475bps
Other Income	4	1	2	152.89%	78.20%
Depreciation	4	4	5	5.74%	-8.18%
<b>EBIT</b>	<b>55</b>	<b>62</b>	<b>28</b>	<b>-11.17%</b>	<b>92.77%</b>
Finance cost	5	2	1	136.13%	258%
<b>PBT</b>	<b>50</b>	<b>60</b>	<b>27</b>	<b>-16.03%</b>	<b>84.87%</b>
Tax Expense	13	15	7	-14.86%	85.54%
Effective tax rate %	26%	25%	26%	36bps	9bps
<b>PAT</b>	<b>37</b>	<b>44</b>	<b>20</b>	<b>-16.43%</b>	<b>84.64%</b>
Add: Profit/ Loss on Joint Ventures	-1	-0	-1	1079.43%	-11.02%
<b>Consolidated PAT</b>	<b>36</b>	<b>44</b>	<b>19</b>	<b>-17.82%</b>	<b>88.34%</b>
PAT margin %	9.77%	11.61%	6.28%	-184bps	349bps
Other Comprehensive Income	0	0	-1	-	-116.76%
Profit for the period	37	44	19	-17.58%	95.48%
<b>EPS (INR)</b>	<b>6</b>	<b>8</b>	<b>3</b>	<b>-17.90%</b>	<b>88.27%</b>

Source: Arian Research, Company Filings

## Q4FY22 Earnings Call Highlights:

## FY22 Highlights:

- An important milestone for turnover was attained this year, reaching the INR 1350 Cr mark.
- Declared special dividend of INR 3 per share.
- Attaining the project Lakshya target, channel financing, new product lines, and new EBO this year were some notable achievements
- Dollar changed its brand architecture this year, and the athleisure segment continued to be a good performer.
- They were the principal sponsor of the Rajasthan Royals.
- Continued focus on channel growth in D2C and inorganic growth through brand acquisition
- Launched brazier segment in the north and east India.
- New brand ambassador for womenswear appointed.
- The price of cotton candy rose from INR 75,000 in January to INR 1,50,000 in May vs INR 40-45,000 at the beginning of FY22. Expect sharp volatility going ahead. The company is stocking up on key RMs to be prepared for summer supply.
- Reduced WC days from 178 to 154 days in FY22 due to a reduction in debtor days.
- Increased the number of distributors under project Lakshya to 142 up from 51 at the beginning of FY22. They aim to bring 70% of the total distributors under the project by FY25.
- Bought 150 distributors under channel financing, and are targeting to bring 60-65% of the total distributors under channel financing by FY25.
- Increased the number of active retailers per distributor to 100. They aim to increase this to 150-200 by FY25. This will increase reach and range in the market.
- Integrated warehouse plan and expansion of spinning mills to be completed by FY22.
- The revenue target for FY25 is INR 2,000 Cr.
- They increased the sale of value-added products this year.
- Other expenses were down significantly vs last year, as total advertisement cost is lower at INR 63-64 Cr.

**Q4FY22 Earnings Call Highlights:**

**High inventory:** Stocking up of RM, especially yarn led to inventories being high. Yarn prices are increasing every day, and volatility due to yarn supply issues persists too. The current WIP is 40-45% of inventory. Inventory days were reduced by 3 this year, it would have been higher if not for the price volatility.

**Price hike and volumes:** Hikes were taken from 1st April onward by 4-4.5%. Another one is expected around mid-June or by the end of the month. Demand is sluggish in the market overall, but it is being overcome. They registered a volume growth of 9% in FY22 despite omicron. Volumes de-grew in Q4.

**WC days' target:** Last year, they targeted a 15-day reduction, and ended up reducing the WC days by 23. Next year's target is to reduce it by 10-12 more days. They hope to onboard more distributors with channel financing which will help.

**Debt:** They do not intend to take any long-term debt; only short-term debt will be used if at all. Right now, the cost of capital is low at 5-6%.

**Growth of Project Lakshay:** Targeted to increase another 200 distributors under the project in FY22.

**Estimated category wise growth for new categories:** Force Nxt- 20-25%; Athleisure- 30%; Missy- 30%.

**EBO Strategy:** After opening the 1<sup>st</sup> one in Q3, they weren't able to meet the target of opening 8-10 more. They target to open ~25 more in FY23 and ~120 by FY25.

**RM:** Out of total inventory, 40:60 is RM: FG. RM enough for 55 days.

**Omicron effect:** The omicron variant heavily disturbed operations for 1.5 months. This caused muted sales which didn't allow for taking price hikes in the market. This hike had been postponed to April.

**Dollar vs other premium players:** Premium players like Page Industries have also taken price hikes, though they have been less frequent than those taken by Dollar.

**Average realization:** It is about INR 65 for the whole year and INR 67 for Q4.

**Ad spends expected:** The target for FY23 is INR 90-100 Cr.

**Capacity Utilization:** Most production takes place through job work, apart from the backward integrated factories which run at full utilization.

**Capex guidance:** For the next 2 years, they expect INR 120 Cr of Capex to expand the spinning mill capacity and the integrated warehouse. They have spent INR 40 Cr last year. The rest will be spent this year.

**Improvement in receivables:** This is because they have onboarded 150 distributors for channel financing, half of them are in project Lakshaya already. A major contribution to improvement in receivables was from channel financing.

**JV:** The Pepe JV received INR 5.20 Cr revenue from December and total revenue of INR 14 Cr. Expect growth of 16%, and a target revenue of INR 20-25 Cr next year. There will be D2C and e-commerce benefits.

**Online segment:** Modern trade has a 4% contribution to revenues. The overall online segment grew 63% from the last year.

**RM prices:** The current trend is unpredictable. Expect volatility to persist.

**EBO:** One was recently opened in mid-October. It has been working well with good traction in athleisure, women's intimates, and bottom wear.

**If cotton prices soften:** Any decrease in prices will be taken gradually and in phases.

**Brazier segment:** It is growing at 14%. The literacy toward them is also increasing and it has received a good response from retailers in north India where it was launched. It is planned to be available pan India this year. The average realization is INR 125-130. The segment could be trending toward INR 30 cr of revenue.

## Key Financials (Consolidated)

Income statement (INR cr)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>967</b>	<b>1,037</b>	<b>1,350</b>	<b>1,585</b>	<b>1,874</b>
Net Raw Materials	634	656	883	999	1143
Advt & Promotion	186	211	269	317	356
Employee Cost	42	45	64	63	81
Other Expenses	186	198	183	260	330
<b>EBITDA</b>	<b>105</b>	<b>138</b>	<b>220</b>	<b>263</b>	<b>320</b>
<b>EBITDA %</b>	<b>10.8</b>	<b>13.3</b>	<b>16.3</b>	<b>16.6</b>	<b>17.1</b>
Depreciation	(14)	(15)	(17)	(27)	(30)
Interest expense	(15)	(9)	(10)	(9)	(8)
Other income	5	3	7	8	9
Share of profits associate & JV	(2)	(2)	(2)	(2)	(2)
<b>Profit before tax</b>	<b>78</b>	<b>115</b>	<b>198</b>	<b>233</b>	<b>289</b>
Taxes	(20)	(30)	(51)	(60)	(75)
<b>Reported Net profit</b>	<b>57</b>	<b>85</b>	<b>147</b>	<b>172</b>	<b>214</b>
Other Comprehensive income	-1	0	1	1	0
<b>Net profit</b>	<b>57</b>	<b>86</b>	<b>148</b>	<b>173</b>	<b>214</b>
<b>EPS</b>	<b>10.0</b>	<b>15.1</b>	<b>26.1</b>	<b>30.2</b>	<b>37.7</b>
Balance sheet Consolidated (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	11	11	11	11	11
Reserves	449	525	660	821	1,026
<b>Net worth</b>	<b>461</b>	<b>537</b>	<b>671</b>	<b>833</b>	<b>1,037</b>
Debt	226	148	237	212	182
Other non-current liabilities	3	2	4	4	4
<b>Total Liabilities</b>	<b>690</b>	<b>687</b>	<b>913</b>	<b>1,049</b>	<b>1,224</b>
Fixed assets	69	79	81	205	220
Capital Work In Progress	14	15	52	25	28
Other non current assets	18	18	32	26	31
Inventories	305	334	475	449	492
Sundry debtors	360	331	402	440	505
Loans & Advances	1	0	0	1	1
Other current assets	42	48	61	72	85
Sundry creditors	(120)	(139)	(176)	(206)	(242)
Other current liabilities & Provisions	(10)	(12)	(22)	(18)	(22)
Cash	6	7	1	45	114
Other Financial Assets	4	5	6	9	10
<b>Total Assets</b>	<b>690</b>	<b>687</b>	<b>913</b>	<b>1,049</b>	<b>1,224</b>
Cashflow Consolidated (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	78	115	198	233	289
Depreciation	14	15	17	27	30
Tax paid	(20)	(30)	(51)	(60)	(75)
Working capital Δ	(28)	16	(178)	1	(81)
<b>Operating cashflow</b>	<b>44</b>	<b>116</b>	<b>(14)</b>	<b>201</b>	<b>163</b>
Capital expenditure	(25)	(26)	(57)	(123)	(48)
<b>Free cash flow</b>	<b>19</b>	<b>90</b>	<b>(71)</b>	<b>77</b>	<b>114</b>
Equity raised	-	0	3	(1)	-
Others	(12)	(1)	(15)	3	(6)
Debt financing/disposal	(11)	(78)	89	(25)	(30)
Dividends paid	(12)	(10)	(17)	(10)	(10)
Other items	1	(0)	3	1	-
<b>Net Δ in cash</b>	<b>(15)</b>	<b>1</b>	<b>(7)</b>	<b>45</b>	<b>68</b>
<b>Opening Cash Flow</b>	<b>22</b>	<b>6</b>	<b>7</b>	<b>1</b>	<b>45</b>
<b>Closing Cash Flow</b>	<b>6</b>	<b>7</b>	<b>1</b>	<b>45</b>	<b>114</b>

Source: Arianth Research, Company Filings

## Ratios

Ratios	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue growth	(6.0)	7.2	30.2	17.4	18.2
Operating profit growth	(22.9)	32.0	59.2	19.7	21.8
Net profit growth	(22.1)	48.8	72.4	17.0	24.3
<b>Profitability ratios (%)</b>					
RoCE	10.5	13.6	19.5	18.5	19.5
RoNW	13.0	17.2	24.5	22.8	22.9
RoA	8.2	12.5	16.2	16.3	17.5
<b>Per share ratios</b>					
Dividend per share	1.7	1.7	3.0	1.7	1.7
Book value per share	81.3	94.6	118.3	146.8	182.9
<b>Valuation ratios</b>					
P/E	47.1	31.7	18.4	15.7	12.6
P/CEPS	37.8	26.8	16.5	13.6	11.1
P/B	5.9	5.0	4.0	3.2	2.6
EV/EBIDTA	28.0	20.6	13.4	10.9	8.6
<b>Payout (%)</b>					
Dividend payout	20.3	11.3	11.6	5.6	4.5
Tax payout	26.2	26.0	25.8	26.0	26.0
<b>Liquidity ratios</b>					
Debtor days	134.0	114.9	107.2	100.0	97.0
Inventory days	173.2	183.2	193.7	162.0	155.0
Creditor days	50.2	55.5	56.1	56.0	56.0
<b>Leverage ratios</b>					
Interest coverage	6.2	14.4	21.8	27.1	37.9
Net debt / equity	0.5	0.3	0.4	0.2	0.1
Net debt / op. profit	2.1	1.0	1.1	0.6	0.2

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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