

The worst is over; margin expansion to come in FY24 onward owing to cost optimization initiatives and RM price softening

CMP: INR 349

Rating: BUY

Target Price: INR 659

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)	2,569
52w H/L (INR)	549 / 310
Avg Daily Vol (in 000')	106

Shareholding Pattern %

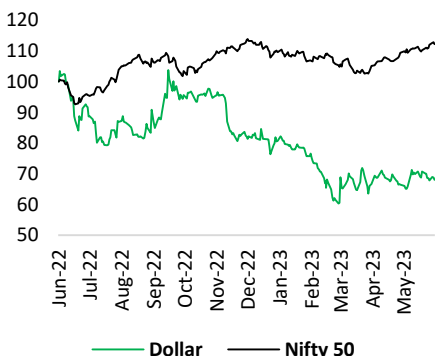
(As on March 2023)

Promoters	73.09
FII	0.44
DII	2.26
Public & Others	24.21

Stock Performance (%)

	1m	3m	12m
DIL	2.3	4.3 (24.2)	
Nifty 50	2.6	6.2	12.2

DIL Vs Nifty 50



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The company missed on profitability from high inventory losses, employee costs, and other expenses. Top-line growth remained steady. DIL's Q4FY23 Revenue was up 9.26% YoY to INR 406 Cr Vs our estimate of INR 265 Cr (+42.42% QoQ). EBITDA was down 79.6% YoY to INR 11 Cr Vs our estimate of INR 17 Cr (-41.81% QoQ). EBITDA Margin contracted 1,211bps to 2.78% vs our estimate of 4.65% (-402bps QoQ). PAT was down 98.75% to INR 0 Cr Vs our estimate of 11 Cr. (-92.65% QoQ).

Volume growth and price cuts: In Q4 they had a volume growth of 37% (value de-growth of 29%), and 5% in FY23. However, on a full-year basis, they took price cuts of 4-5% to reflect the correction in yarn to be passed on to distributors. Additionally, most of the volume growth came from low-margin economy products which led to ASP de-growth. Premium ranges like Force NXT and Missy had volume growth of 15% and 10% respectively.

EBO expansion: During the year they opened 14 EBOs to help increase brand awareness and value perception in the eyes of the customers.

Progress on Project Lakshya: During the year they added 87 distributors and forayed into newer territories to secure their market share as competitiveness has started to increase. They have recently entered Tamil Nadu and Kerala. The sales contribution of the project was 19% vs 8% in FY22, and Project Lakshya distributors has a volume growth of 19% and a value growth of 18% during the year (sans- new additions in FY23) which is healthier than the company level. They are now targeting Orissa and the Northeast with a distributor addition of 100-140 in the next year. In FY22 they had 140 distributors generating INR 100 Cr of revenue and in FY23 these numbers were 228 with INR 240 Cr respectively.

High-cost cotton inventories: They led to significant inventory losses during the year, and will ~2 more quarters to fully clean up, post which we can expect margin expansion to accrue. Cotton prices have stabilized at INR 55,000- 60,000 per candy and yarn prices are also less volatile.

Brand-wise SOR: FY23; Dollar Bigg Boss 42%, Dollar Always 37%, Thermals 6%, Dollar Women's (Missy) 9%, Socks 2%, and Force Nxt 9%. Q4; Dollar Bigg Boss 43%, Dollar Always 42%, Thermals 1%, Dollar Women's (Missy) 9%, Socks 2%, and Force Nxt 4%.

Heavy investments in advertisement to improve brand visibility and impact: The company spent INR 101 Cr on advertisement (7.22% of revenues). This will be maintained into FY24 as margin expansion will pick up.

Valuation & Outlook: We look toward significant inventory clean-up in the next few quarters which will lead to margin recovery, as channel inventory begins to clear up. Brand awareness will increase with a growing EBO count and increasing ad spending. 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

Q3FY23 - Quarterly Performance (INR Cr)

INR Cr (consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue from Operations	406	285	372	42.42%	9.26%
Raw Material Cost	244	156	171	56.06%	42.31%
Gross Profit	163	129	201	25.91%	-18.97%
Gross Margin	40.00%	45.25%	53.93%	-524bps	-1393bps
Sub Contract Expenses	63	43	82	45.57%	-23.15%
Employee cost	21	19	19	11.28%	12.23%
Other Expenses	67	48	45	41.51%	50.69%
EBITDA	11	19	55	-41.81%	-79.60%
<i>EBITDA margin %</i>	<i>2.78%</i>	<i>6.81%</i>	<i>14.89%</i>	<i>-402bps</i>	<i>-1211bps</i>
Other Income	1	1	4	127.04%	-66.93%
Depreciation	4	5	4	-10.81%	-4.90%
EBIT	8	15	55	-45.43%	-84.84%
Finance cost	3	4	5	-14.54%	-26.76%
Profit/ Loss on equity investment	-3	-1	-1	194.06%	342.02%
PBT	2	10	49	-80.92%	-96.05%
Tax Expense	1	2	13	-39.59%	-88.47%
Effective tax rate %	77%	24%	26%	5236bps	5034bps
PAT	0	8	36	-94.09%	-98.75%
<i>PAT margin %</i>	<i>0.11%</i>	<i>2.71%</i>	<i>9.70%</i>	<i>-260bps</i>	<i>-959bps</i>
EPS (INR)	0.10	1.36	6.42	-92.65%	-98.44%

Source: Arianth Research, Company Filings

Q4FY23 Concall highlights:

- The yarn capacity should be commissioned by September and the warehouse is awaiting a certificate of completion. They are trying to maintain that 20% of yarn needs to be met in-house to allow for quality and cost control. In the short run, this figure can go up to 25% but will revert to 20% in the long run.
- Combined economy range and Bigg Boss grew 53% and 14% respectively during the year (huge volumes). Premium products like force nxt only grew 2-3%. The target contribution of athleisure wear is 13%, and to achieve this they have launched women's athleisure and have replaced Force Go Wear with dollar man athleisure for better branding.
- FY25 target WC days are 120 vs the current 160.

Income statement (INR cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,037	1,350	1,394	1,499	1,683	1,923
Net Raw Materials	656	883	981	1002	1092	1228
Advt & Promotion	211	269	223	252	267	305
Employee Cost	45	64	77	82	100	114
Other Expenses	198	183	238	263	300	341
EBITDA	138	220	98	153	192	241
EBITDA %	13.3	16.3	7.0	10.2	11.4	12.5
Depreciation	(15)	(17)	(18)	(28)	(38)	(43)
Interest expense	(9)	(10)	(14)	(13)	(11)	(9)
Other income	3	7	5	6	7	8
Share of profits associate & JV	(2)	(2)	(6)	(6)	(6)	(6)
Profit before tax	115	198	66	112	144	191
Taxes	(30)	(51)	(13)	(25)	(32)	(42)
Reported Net profit	85	147	52	87	113	149
Other Comprehensive income	0	1	1	1	1	1
Net profit	86	148	53	88	113	149
EPS	15.1	26.1	9.1	15.3	19.7	26.1

Balance sheet Consolidated (INR cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	11	11	11	11	11	11
Reserves	525	660	696	773	875	1,014
Net worth	537	671	707	784	887	1,025
Debt	148	237	201	171	141	111
Other non-current liabilities	2	4	11	11	11	11
Total Liabilities	687	913	920	968	1,041	1,149
Fixed assets	79	81	83	286	349	377
Capital Work In Progress	15	52	88	81	51	58
Other non current assets	18	32	45	15	16	19
Net working capital	562	740	698	567	529	595
Inventories	334	475	358	348	303	307
Sundry debtors	331	402	428	375	397	481
Other current assets	48	61	65	71	79	91
Sundry creditors	(139)	(176)	(138)	(209)	(232)	(262)
Other current liabilities & Provisions	(12)	(22)	(16)	(17)	(19)	(22)
Cash	7	1	1	11	86	91
Other Financial Assets	5	6	5	8	9	11
Total Assets	687	913	920	968	1,041	1,149

Cashflow Consolidated (INR cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	115	198	66	112	144	191
Depreciation	15	17	18	28	38	43
Tax paid	(30)	(51)	(13)	(25)	(32)	(42)
Working capital Δ	16	(178)	43	131	38	(66)
Operating cashflow	116	(14)	113	247	189	126
Capital expenditure	(26)	(57)	(55)	(225)	(71)	(78)
Free cash flow	90	(71)	58	22	118	48
Equity raised	0	3	(7)	(1)	(1)	(1)
Others	(1)	(15)	(12)	27	(3)	(4)
Debt financing/disposal	(78)	89	(36)	(30)	(30)	(30)
Dividends paid	(10)	(17)	(10)	(10)	(10)	(10)
Other items	(0)	3	8	2	1	1
Net Δ in cash	1	(7)	1	10	75	5
Opening Cash Flow	6	7	1	1	11	86
Closing Cash Flow	7	1	1	11	86	91

Source: Arianth Research, Company Filings

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)						
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
Profitability ratios (%)						
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
Per share ratios						
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
Valuation ratios						
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
Payout (%)						
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
Liquidity ratios						
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
Leverage ratios						
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
Balance sheet Consolidated (INR cr)						
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
RoE (%)	17.2	24.4	7.6	11.7	13.5	15.6

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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