

13 November 2018

Dollar Industries

Volume-driven revenue growth; retaining a Hold

Boosted by Q2 FY19's ~24% revenue growth, Dollar Inds' H1 FY19 revenue rose ~13%. GST disruptions brought Q2 FY18 abnormally lower. The H1 FY19 gross margin expanded 637bps to 59.7% due to higher sub-contracting costs; however (22.3% of revenue, 18.7% last year), the EBITDA margin expanded 51bps to 13.2%. To contain the lengthened working-capital cycle, management is rationalising its distributors. We retain our Hold rating, with a target of ₹384, valuing the stock at 20x FY21e P/E.

Steps to reduce required working capital. Higher inventory for the coming winter led to working capital required being higher y/y. It was lower q/q, however, as management is taking steps to reduce the working capital required. The company is rationalising distributors, helping reduce debtor days to 100, from 106 in Jun'18. For a better discount, it paid creditors upfront, bringing creditor days down to 35, from 46 in Jun'18.

Lower growth in premium products. Its female-centric brand, Missy, did satisfactorily in H1 FY19 (growing ~20% by volumes and ~30% by revenue); its premium brand, Force NXT, failed to pick up; volumes slid ~5%. While working out a new marketing strategy for Force NXT, sales will continue under pressure for the next 2-3 quarters. Its flagship brand, Bigboss, saw flat volumes. Its economy brands did well, volumes growing ~12%.

Launched products under Pepe Jeans Inner Fashion. The JV started producing men's innerwear and athleisurewear. 37 products were launched in south Indian cities (Chennai, Bangalore, Hyderabad). At present, the products are marketed through trade channels and Pepe Jeans stores.

Valuation. Less-than-expected growth in premium products lead us to cut our FY19e/FY20e PAT 8%/11%. We introduce FY21e, roll over our valuation to FY21 and lower our target multiple to 20x, from 23x earlier. We retain our Hold rating, with a revised target of ₹384 (earlier ₹416) valuing the stock at 20x FY21e P/E. **Risks:** Volatile raw-material prices, changing customer preferences, cut-throat competition.

Key financials (YE Mar)	FY17	FY18	FY19e	FY20e	FY21e
Sales (₹ m)	8,861	9,825	11,068	12,536	14,345
Net profit (₹ m)	435	636	778	912	1,087
EPS (₹)	8.0	11.2	13.7	16.1	19.2
PE (x)	38.6	27.6	22.6	19.3	16.2
EV / EBITDA (x)	19.4	15.4	13.3	11.5	9.9
PBV (x)	9.4	5.0	4.2	3.6	3.1
RoE (%)	26.1	23.6	20.2	20.2	20.5
RoCE (%)	10.6	12.4	12.1	12.4	12.9
Dividend yield (%)	0.3	0.5	0.6	1.0	1.0
Net debt / equity (x)	1.0	0.4	0.4	0.3	0.3

Source: Company, Anand Rathi Research

Rating: **Hold**

Target Price: ₹384

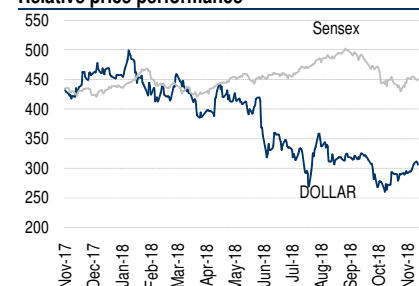
Share Price: ₹310

Key data	DOLLAR IN
52-week high / low	₹515 / 248
Sensex / Nifty	35144 / 10583
3-m average volume	\$0.1m
Market cap	₹17bn / \$239m
Shares outstanding	57m

Shareholding pattern (%)	Sep'18	Jun'18	Mar'18
Promoters	57.0	56.8	56.8
- of which, Pledged	-	-	-
Free float	43.0	43.2	43.2
- Foreign institutions	0.4	0.6	1.5
- Domestic institutions	8.1	8.4	8.4
- Public	34.5	34.2	33.2

Estimates revision (%)	FY19e	FY20e
Sales	-1.2	-2.4
EBITDA	-4.5	-5.6
EPS	-7.5	-11.0

Relative price performance



Source: Bloomberg

Harsh Thakar

Vaishnavi Mandhaniya

Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
Net revenues	8,861	9,825	11,068	12,536	14,345
<i>Growth (%)</i>	7.8	10.9	12.6	13.3	14.4
Direct costs	3,916	4,059	4,704	5,359	6,132
SG&A	3,946	4,527	4,925	5,516	6,276
EBITDA	999	1,239	1,439	1,661	1,937
<i>EBITDA margins (%)</i>	<i>11.3</i>	<i>12.6</i>	<i>13.0</i>	<i>13.3</i>	<i>13.5</i>
- Depreciation	148	122	121	134	148
Other income	14	20	23	26	29
Interest expenses	198	179	162	171	170
PBT	668	958	1,179	1,381	1,648
<i>Effective tax rate (%)</i>	<i>34.8</i>	<i>33.3</i>	<i>34.0</i>	<i>34.0</i>	<i>34.0</i>
+ Associates / (Minorities)	-	-	-	-	-
Net income	435	636	778	912	1,087
Adjusted income	435	636	778	912	1,087
WANS	54	57	57	57	57
FDEPS (₹ / sh)	8.0	11.2	13.7	16.1	19.2
<i>FDEPS growth (%)</i>	<i>65.0</i>	<i>39.9</i>	<i>22.3</i>	<i>17.2</i>	<i>19.3</i>
<i>Gross margins (%)</i>	<i>55.8</i>	<i>58.7</i>	<i>57.5</i>	<i>57.3</i>	<i>57.3</i>

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
Share capital	108	113	113	113	113
Net worth	1,875	3,524	4,165	4,872	5,754
Debt (incl. pref.)	1,949	1,700	1,800	1,800	1,700
Minority interest	-	-	-	-	-
DTL / (Asset)	24	4	4	4	4
Capital employed	3,848	5,228	5,969	6,676	7,458
Net tangible assets	747	683	663	649	621
Net intangible assets	1	1	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	0	21	21	21	21
Investments (strategic)	-	26	66	166	266
Investments (financial)	3	8	8	8	8
Current assets (ex cash)	4,464	5,796	6,673	7,494	8,539
Cash	100	196	231	256	199
Current liabilities	1,467	1,503	1,693	1,918	2,195
Working capital	2,996	4,292	4,980	5,576	6,344
Capital deployed	3,848	5,228	5,969	6,676	7,458
Contingent liabilities	18				

Fig 3 – Cash-flow statement (₹ m)

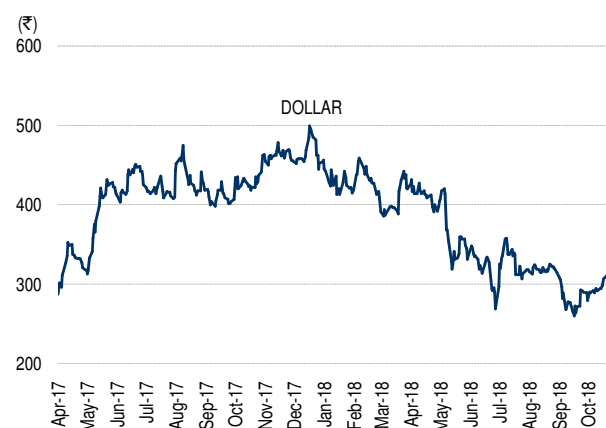
Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
PBT (adj for Int. income & exp.)	863	1,128	1,318	1,527	1,788
+ Non-cash items	153	137	121	134	148
Oper. prof. before WC	1,016	1,265	1,439	1,661	1,937
- Incr. / (decr.) in WC	373	1,216	688	596	768
Others incl. taxes	213	359	401	470	560
Operating cash-flow	430	-311	350	595	609
- Capex (tang. + intang.)	55	78	100	120	120
Free cash-flow	375	-389	250	475	489
Acquisitions					
- Div. (incl. buyback & taxes)	14	65	137	205	205
+ Equity raised	-	1,075	-	-	-
+ Debt raised	-166	-319	100	-	-100
- Fin investments	3	35	40	100	100
- Misc. (CFI + CFF)	196	174	139	145	141
Net cash-flow	-3	94	34	25	-57

Source: Company, Anand Rathi Research

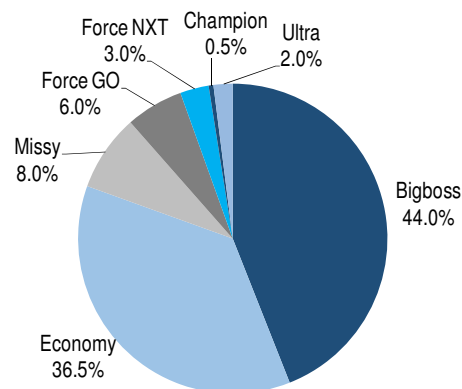
Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19e	FY20e	FY21e
P/E (x)	38.6	27.6	22.6	19.3	16.2
EV / EBITDA (x)	19.4	15.4	13.3	11.5	9.9
EV / sales (x)	2.2	1.9	1.7	1.5	1.3
P/B (x)	9.4	5.0	4.2	3.6	3.1
RoE (%)	26.1	23.6	20.2	20.2	20.5
RoCE (%) - after tax	10.6	12.4	12.1	12.4	12.9
RoIC (%) - after tax	10.8	12.7	12.5	12.8	13.3
DPS (₹ / sh)	1.0	1.6	2.0	3.0	3.0
Dividend yield (%)	0.3	0.5	0.6	1.0	1.0
Div. payout (%) - incl. DDT	12.5	14.3	14.6	18.7	15.6
Net debt / equity (x)	1.0	0.4	0.4	0.3	0.3
Receivables (days)	93	101	101	101	101
Inventory (days)	84	105	105	103	102
Payables (days)	39	42	42	42	42
CFO : PAT %	98.9	-48.8	45.0	65.3	56.0

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Brand-wise revenue break-up (H1 FY19)


Source: Company, Anand Rathi Research

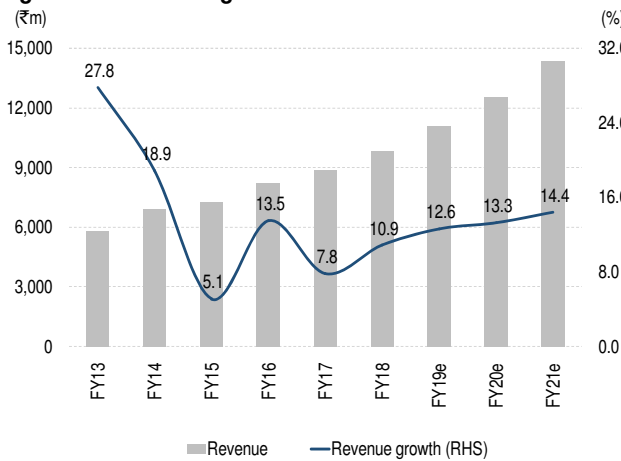
Financial highlights

Fig 7 – Financial performance

(₹ m)	Q2 FY19	Q2 FY18	% Y/Y	Q1 FY19	% Q/Q	H1 FY19	H1 FY18	% Y/Y
Sales	2,428	1,956	24.1	2,437	-0.4	4,864	4,307	12.9
Gross margins (%)	60.7	53.9	684bps	58.8	194bps	59.7	53.4	637bps
EBITDA	362	291	24.5	283	28.1	644	549	17.4
EBITDA margins (%)	14.9	14.9	4bps	11.6	331bps	13.2	12.7	51bps
Interest	35	46	-23.7	34	1.9	70	92	-24.4
Depreciation	27	30	-7.8	26	5.4	53	59	-9.7
Other income	2	10	-74.5	2	53.9	4	11	-62.6
PBT	302	225	34.3	224	34.9	526	409	28.7
Tax	107	76	40.2	86	24.3	192	135	42.8
Tax rate (%)	35.3	33.8	149bps	38.3	-300bps	36.6	33.0	362bps
PAT	195	149	31.3	138	41.5	333	274	21.7

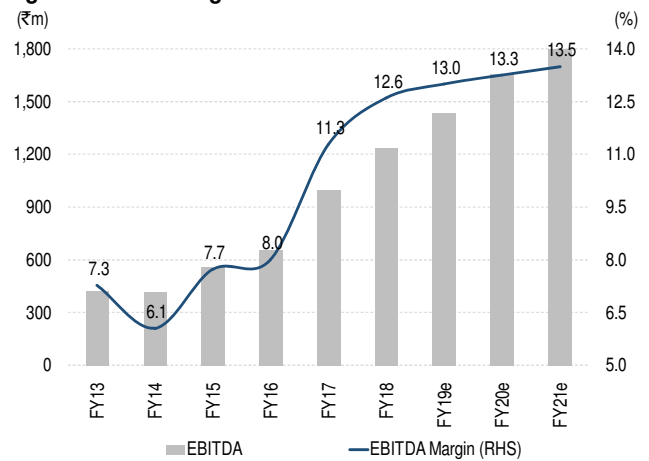
Source: Anand Rathi Research

Fig 8 – Revenue to register a 13% CAGR over FY18-21



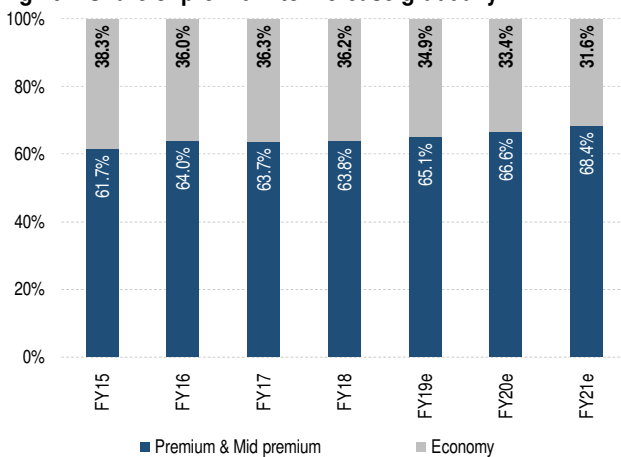
Source: Company

Fig 9 – EBITDA margin to touch 13.5% in FY21



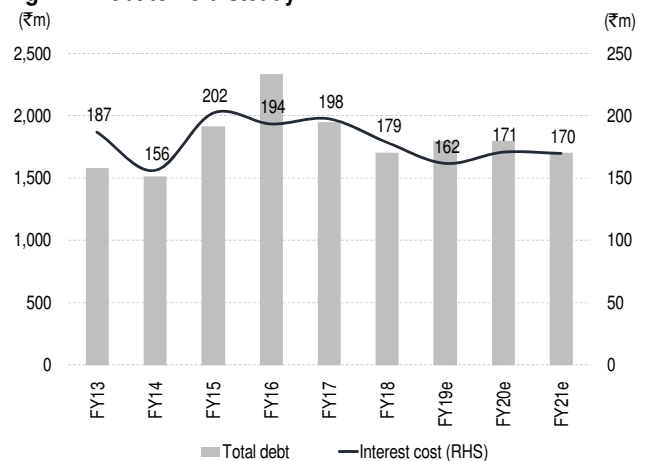
Source: Company

Fig 10 – Share of premium to increase gradually



Source: Company

Fig 11 – Debt to hold steady



Source: Company

Other business updates

- In Q2 FY19, volumes grew 23.36%. Missy and the economy brands grew faster than other brands. Brand-wise volume growth in H1 FY19 was
 - Missy: 20% volume growth
 - Force NXT: 5% volume decline
 - Force Go wear: 100% volume growth
 - Economy brands: 12% volume growth
 - Its flagship brand, Big Boss, was flat, while volumes in thermals and kids brand, Champion, declined.
- Pepe Jeans Inner Fashion launched men's innerwear and athleisure products in south India through trade channels and Pepe Jeans stores. The JV will soon launch the products in 'Central stores' and on an online channel.
- The company will launch Missy and Force NXT kiosks in malls by Dec'18.
- Sales of Force NXT declined during the quarter as the company is attempting to work out a new marketing strategy. Sales of Force NXT will be weaker in the next two quarters.
- The average selling price (ASP) in H1 FY19 was ₹52.3 a piece, against ₹49.5 a year ago.
- Working capital:
 - Management is taking steps to reduce the working capital required. It is rationalising its distributors to reduce debtor days.
 - Working capital days shrank to 160, from 170 in Jun'18.
 - As the company has stocked up thermals for the winter, the inventory mix has changed in favour of finished goods. The proportion of raw material in inventory has come down to 40%, from 45-50% in the last few quarters.
 - To avail of better discounts, the company paid creditors upfront, slicing creditor days to 35, from 46 in Jun'18.
- Exports for the quarter, at 7%, were lower than the 9% average. Management expects exports to pick up in Q3 and Q4.
- Q3 sales growth heavily depends on thermals as primary sales occur in October/November, and repeat orders are placed in December.
- In H1 FY19, the company spent ₹520m on advertising, against the full year target of ₹860m.
- Guidance:
 - A 14% EBITDA margin in FY19, with revenue growing 13-14%.
 - The company is aiming at a 15% revenue CAGR over the next five years, and at a 15% EBITDA margin over the next two years.
 - It is attempting to further shrink its working-capital cycle in FY19, by five days.
 - FY19 capex would be ~₹100m, of which, ~₹70m has already been spent in H1 FY19.

- Debt in FY19 would be ~₹1.5bn-2bn.

Change in estimates

Fig 12 – Estimates revision

(₹ m)	Old estimates		New estimates		Change (%)	
	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Revenue	11,202	12,841	11,068	12,536	-1.2%	-2.4%
EBITDA	1,507	1,759	1,439	1,661	-4.5%	-5.6%
PAT	841	1,025	778	912	-7.5%	-11.0%
EPS (₹)	14.8	18.1	13.7	16.1	-7.5%	-11.0%

Source: Anand Rathi Research

Valuation

The highly-non regulated (at present) innerwear segment is in a sweet spot to benefit from the GST, and the company is poised to cash in on the opportunity. It is also focusing on margin expansion by rationalising advertising costs and dealer incentives.

We expect revenue, EBITDA and PAT to clock respectively 13%, 16% and 20% CAGRs over FY18-21.

Lower-than-expected growth in premium products lead us to cut our FY19e and FY20e PAT respectively 8% and 11%. As we introduce FY21 estimates and roll over our valuation to FY21, we reduce our target multiple to 20x, from 23x earlier. We retain our Hold rating, with a revised target of ₹384 (earlier ₹416) valuing the stock at 20x FY21e P/E.

Risks

- **Volatile raw-material prices.** Any delay or inability of the company to pass on fluctuations in raw-material prices could shrink margins
- **Changing technology and consumer behaviour.** The innerwear sub-segment is subject to rapid changes in consumer preference and technology. The inability of the company to respond in a timely manner to such changes would weigh on its performance.
- **Intensifying competition.** The company operates in a cut-throat environment with international and domestic brands. Standing out in such a competitive environment is essential.

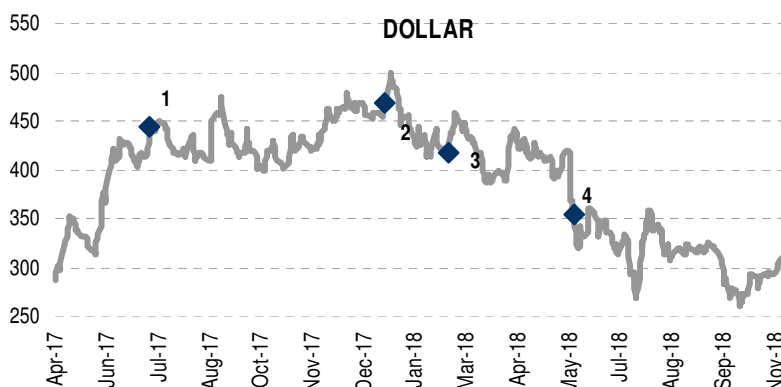
Appendix

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	Date	Rating	TP (₹)	Share Price (₹)
1	06-Jul-17	Buy	529	420
2	06-Jan-18	Hold	537	470
3	23-Feb-18	Buy	545	421
4	02-Jun-18	Hold	416	356

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