

Initiating Coverage Dollar Industries Ltd.

16-December-2020



Dollar Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Branded Apparel	Rs. 208.5	Buy at LTP and add on dips in the Rs.176-178 band	Rs. 240	Rs. 273	2 quarters

HDFC Scrip Code	DOLLAREQNR
BSE Code	541403
NSE Code	DOLLAR
Bloomberg	DOLLAR IN
CMP Dec 15, 2020	208.5
Equity Capital (Rscr)	11
Face Value (Re)	2
Equity Share O/S (cr)	5.6
Market Cap (Rscrs)	1181
Book Value (Rs)	81
Avg. 52 Wk Volumes	114,150
52 Week High	200
52 Week Low	94

Share holding Pattern % (June, 2020)	
Promoters	72.61
Institutions	5.06
Non Institutions	22.33
Total	100.0

Fundamental Research Analyst

Nirav Savai

nirav.savai@hdfcsec.com

Our Take:

Dollar Industries is one of the leading, branded knitted wear manufacturer in India. It has created a strong portfolio of brands (Dollar Bigboss, Missy, Force NXT, Champion, Ultra Thermals, Force Go wear) which has presence across varied segments. Over the years it has transformed itself from a mass market brand (86% of revenues in 2006) to a house of brands focusing mainly on mid-market and premium segment which as on FY20 contributed 43% and 24% respectively of the overall branded B2C revenues.

Going forward, the company's key pillars for growth includes -1) Deeper penetration in its existing mass and mid-market brands like "Dollar" and "Bigboss" 2) Expanding its product portfolio in women's wear brand "Missy" 3) JV with Pepe Jeans for premium and super premium segment has been already operational. It aims to use Pepe network and reach for scaling-up its presence in this segment 4) Redefining its business model through efficient allocation of resources and by cutting down its working capital. It has started project "Lakshya" with Vector Consultants for the same and post a pilot project, it is the process of gradually streamlining its supply chain and back-end operations. Going forward, it aims to extend this project across India, starting from Maharashtra, Gujarat & Telangana.

Valuations & Recommendation:

Post the introduction of GST and Covid-19 pandemic, we believe, low ticket sized branded knitted-wear as a category is all set to go through a structural shift. Dollar's strong brand recall coupled with deeper penetration and consumers shifting towards affordable branded quality products are strong macro tailwinds for the company. We expect the company to record a Revenue and PAT CAGR of 6% and 20% over FY20-23E. Higher PAT growth is likely to be mainly driven by cost rationalization measures and debt reduction.

The stock is currently trading at valuation of 14x FY22E earnings. We feel the base case fair value of the stock is Rs 240 (16.0x FY22E) and bull case fair value is Rs 273 (18.0x FY22E) over the next two quarters. Investors can buy the stock at LTP and add on dips to Rs.176-178 band.

Financial Summary

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	258.0	243.0	6.2	160.0	61.3	1,028.8	969.3	959.3	1,045.0	1,155.3
EBITDA	35.0	23.0	52.2	29.0	20.7	892.8	106.0	139.1	147.3	162.9
Depreciation	4.0	4.0	0.0	4.0	0.0	11.0	14.0	16.1	18.3	20.5
Other Income	1.0	1.0	0.0	0.0		2.0	5.0	3.8	4.2	4.6
Interest Cost	2.0	4.0	-50.0	3.0	-33.3	16.0	16.0	13.5	10.9	9.4
Tax	7.5	2.7	175.7	5.5	36.4	35.5	20.3	28.3	30.6	34.4
PAT	22.5	13.3	69.4	16.5	36.4	75.5	60.8	85.0	91.8	103.2
Diluted EPS (Rs)	3.9	2.4	63.5	2.9	35.9	13.3	10.5	14.1	15.3	17.9
RoE						18%	13%	15%	15%	15%
P/E (x)						16	20	15	14	12
EV/EBITDA						10.2	13.1	9.7	8.8	7.7

(Source: Company, HDFC Sec)

Q2FY21 Result Review

- In the midst of Covid-19 pandemic, Dollar has reported steady performance. In Q2FY21 revenues stood at Rs 288Cr which grew by 6%/61% on YoY/QoQ basis. Better growth was mainly driven by pent-up demand post lockdown. On-line sales grew by 44% in H1FY21. Segment-wise economy range Regular- “Dollar” and thermal “Ultra” share grew from 30% and 10% in Q2FY20 to 33% and 14% respectively as on Q2FY21. Women’s wear “Missy” brand and midmarket “Bigboss” were adversely impacted whereby its share in overall revenue pie declined from 10% and 43% in Q2FY20 to 6% and 40% as on Q2FY21.
- EBITDA for the quarter grew by 52%/21% on YoY/QoQ basis. Consequently, margins expanded by 410bps YoY to 13.6%. Better operating performance was mainly driven by sharp cut in the A&P spends which was ~Rs. 16.5Cr for the quarter and Rs. 27Cr for the entire H1FY21 v/s Rs. 45Cr in H1FY20.
- PAT for the quarter stood at Rs. 22.5Cr up 69%/ 23% on YoY/QoQ basis.

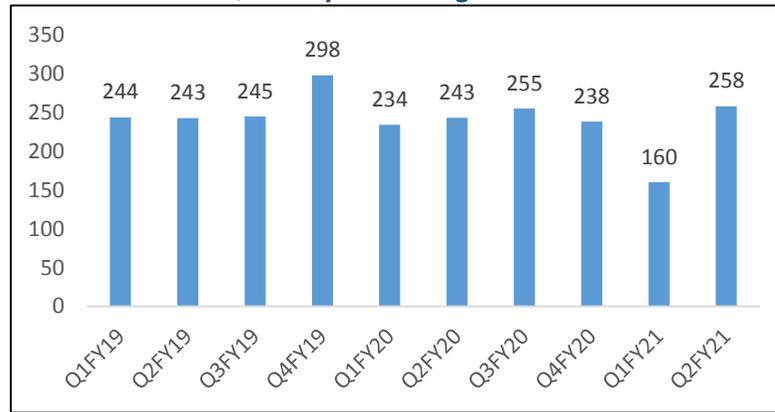
Recent Triggers

Strong pent-up demand post lockdown coupled with margin expansion driven by cost rationalization

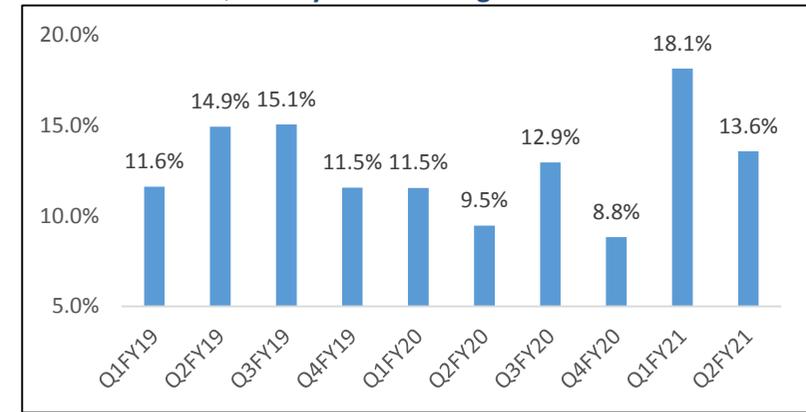
Branded Innerwear as a category being low ticket size and a bare basic necessity wasn't impacted much despite the Covid-19 related slowdown. Post easing of restrictions on lockdown, there was a strong pent-up demand across innerwear categories which was a big positive for large organized and Pan-India branded players. Traditionally, this industry which was perceived to be the buyers-market due to excessive competition and high working capital, had temporarily turned into sellers-market, particularly for large organized players who had the ability to continue business as usual which was mainly driven by their strong control over supply chain and sound balance sheet back-up.

Dollar Industries with its strong brand recall, deeper penetration and last mile connectivity through its strong distribution network (presence across 11k+ retail outlets across India) was relatively better placed. Apart from this, despite the pandemic, its rural business which caters to mainly to the economy and price conscious consumers remained insulated from the lockdown. Post the pandemic, unorganized regional players went through an extremely challenging phase due to limited resources and supply chain constraints. Regional players mainly compete in the economy and mid-market segment where Dollar through its brands has an extensive reach and presence.

Quarterly Revenue growth Trend



Quarterly EBITDA Margin Trend



(Source: Company, HDFC sec)

Long Term Triggers

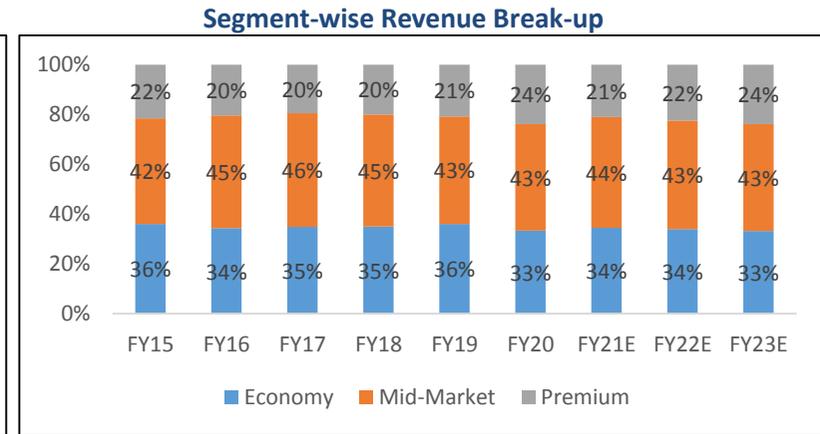
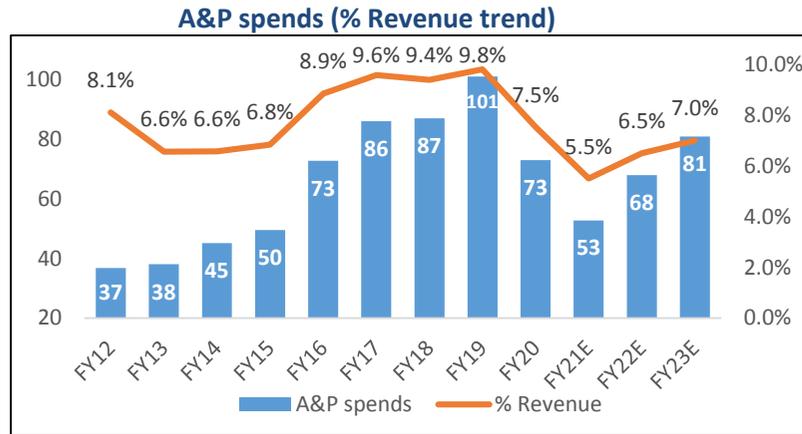
Consistent focus on investments behind brands and scaling up presence across the value pyramid

In order to create a strong and sustainable portfolio of brands, Dollar has been constantly investing aggressively behind brand promotion activities. In last 5 years it has spent ~Rs 470Cr behind A&P activities (~8.7% of total FY15-20 revenues). A significant part of these investments has been allocated towards mid-market brand “Bigboss”- endorsed by Akshay Kumar and women’s legging brand “Missy”- endorsed by Chitragada Singh. Over last 5 years, overall branded B2C revenue growth was of the tune of CAGR 7% which was almost equally driven by volume growth of 2.6% and realization growth of 3% CAGR. Dollar has been gradually inching its presence in mid and premium market segment with higher growth in categories like women’s leggings, thermal wear, premium inner-wear and leisure wear.

Brand-Portfolio and size as on FY20



(Source: Company, HDFC sec)



(Source: Company, HDFC sec)

Within the entire basket of company’s brands, as on FY20, Dollar- Bigboss and Dollar- Regular (Lehar) contributed 42.5% and 35% of overall branded B2C business followed by Missy and Thermal- Ultra which contributed 9.2% and 8.7% respectively. Apart from this, Dollar aims to further accelerate its footprint in the premium inner and leisure-wear space through 50:50 JV with Pepe Jeans Innerfashion Private Limited. This JV will have exclusive agreement for sales in India, Bangladesh, Bhutan and Sri Lanka. It has been in process of scaling-up brand “Pepe” through continuous expansion of its product range.

Dollar Industries with its reach of 1.1k retailers through its 950+ distributors and wholesale channel has still a lot of room available for further penetration. The total market for Dollar’s product portfolio in India is ~6lk+ retailers.

Project “Lakshya” aimed at improving efficiency and shortening the working capital cycle

Dollar in an attempt to keep a tab on its working capital mainly by reducing receivables and inventories, had started to work with Vector Consultants to implement Theory of constraints (TOC). The company had started to appoint distributors in the area where previously the reach was not through direct channel. It had started serving retailers through newly appointed distributors in Karnataka and Rajasthan where its presence was either zero or negligible through the set of new distributors appointed under project Lakshya. In this project the

company focused in direct engagement with the retailers and adopted the pull model replacing the traditional push model. The overall idea was to strengthen the capital efficiency at retail level by not selling the entire box of Dollar products but to provide flexibility to buy on a per piece basis. As per the management, these efforts have been rewarding and has resulted in higher stocking of Dollar products at retail level which has widened and deepened its reach.

After successful implementation in both these states, the company has started the rollout across states like Maharashtra, Gujarat and Telangana. The project rollout was impacted during the lockdown period; however, the company has accelerated the process now.

The Covid pandemic has helped companies like Dollar to rationalise their inventories and debtors. Due to production getting affected, the channel was starved of goods when things started to open up. At that time, Dollar started to insist on faster realisation of debtors and shifted to pull factor from push factor resulting in lower inventory carrying requirements. These advantages may be available to them even after Covid pandemic.

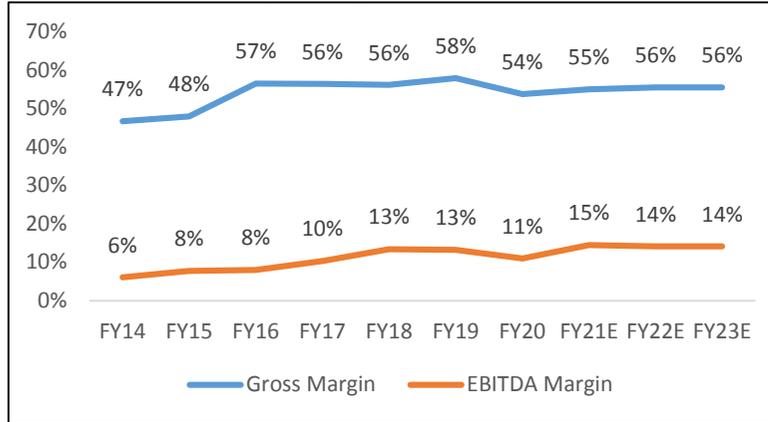
Branded innerwear opportunity is BIG; structural drivers at play

Overall innerwear industry estimated to be ~Rs 28,000 Cr as on FY20 while the size of Athleisure segment even a larger opportunity. Right from demonetization to GST and now post pandemic, we expect, strong consolidation across the branded knitted-wear industry. Larger players with strong supply chain, brand recall and distribution network will have an edge over regional companies with fragile balance sheet and limited reach. There has also been a huge shift from need-driven to aspiration driven buying across consumer facing categories which includes intimate & leisure wear.

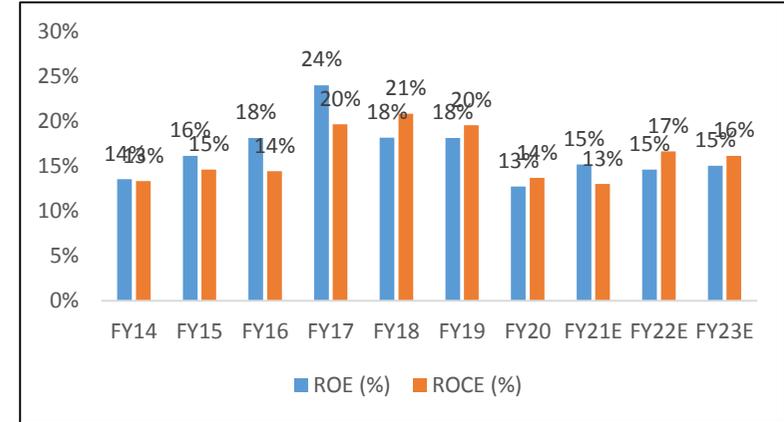
Key Financial Summary

- Dollar has delivered a healthy Revenue CAGR of 12% over FY12-20 aided by its consistent focus on aggressive brand promotion and deeper penetration across India. Along with this, it has been constantly enriching its product portfolio by new product launches thereby scaling-up its high margin value-add segment. Going forward, despite the economic slowdown related challenges, we are expecting the company to report a revenue CAGR of 6% over FY20-23E.
- Its EBITDA and PAT grew by CAGR 14% and 26% respectively over FY12-20. Despite aggressive investments in brand building (8-Yr A&P sends of ~Rs 590Cr) and employee expenses which increased from 0.6% of revenues in FY12 to 4.3% of revenues in FY20, operating margins of the company have been improving due to better product mix and positive operating leverage driven by strong volume uptick. Going forward, we expect its operational performance to improve with EBITDA and PAT likely to grow at CAGR 15% and 20% respectively over FY20-23E.
- Textile and Apparels is a highly competitive and working capital intensive business. Its cash conversion for last 6-years has been on a higher side compared to its listed peers (6-Yr Avg 145 days). However, at Net D/E level, it has improved to 0.5x as on FY20 from 1.4x in FY14. Higher working capital along with comparatively lower margins has impacted its return ratios and free cash flow generation. Post ongoing project Lakshya with Vector consultants, the management has been hopeful of cutting down its receivables and inventory, however due to uncertain and unexpected reasons if they the project doesn't bring results as per expectations there can be an impact on overall earnings growth outlook of the company.

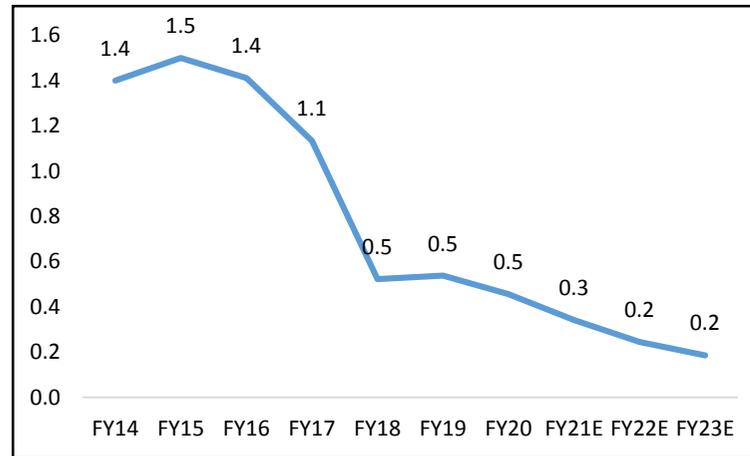
Operating Performance trend



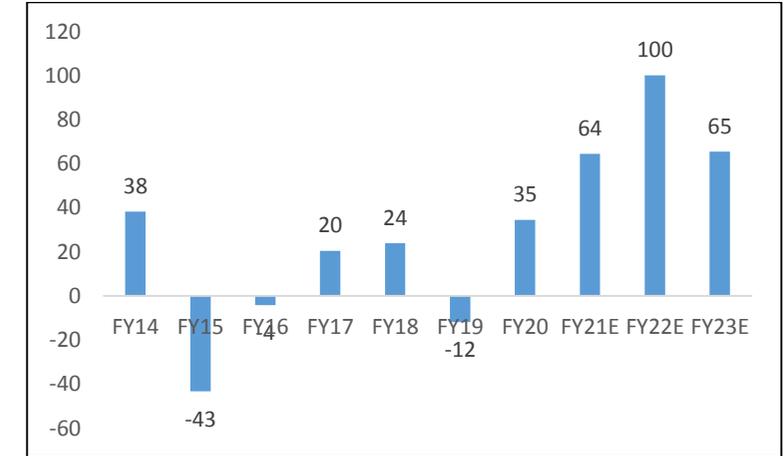
Return ratio trend



Net D/E trend



Free Cash Flow Trend



(Source: Company, HDFC sec)

What could go wrong?

- **Sharp rise in Competition Intensity**

Resurgence of stiff competition intensity from regional players and higher competition from large organized retailers getting in the innerwear segment can impact growth. As of now large organized retailers have restricted their presence only in the premium segment. In case if they enter in mid and mass market segment through their retail network and e-com with adoption of aggressive pricing and discounting, it can create disruption in marketplace.

- **Inability to consistently expand in the premium and women's wear segment**

Premium inner-wear and women's leggings are the fastest growing categories for Dollar industries. In last few years both these segments have become more crowded and there's a need to further product and SKU expansion which can drive future growth. Dollar has also been in a nascent stage of scaling its women's lingerie and expanding casual wear segment. In case if the scale-up of new products becomes a highly elongated tedious task there can be impact on earnings growth momentum.

- **High input cost pressure**

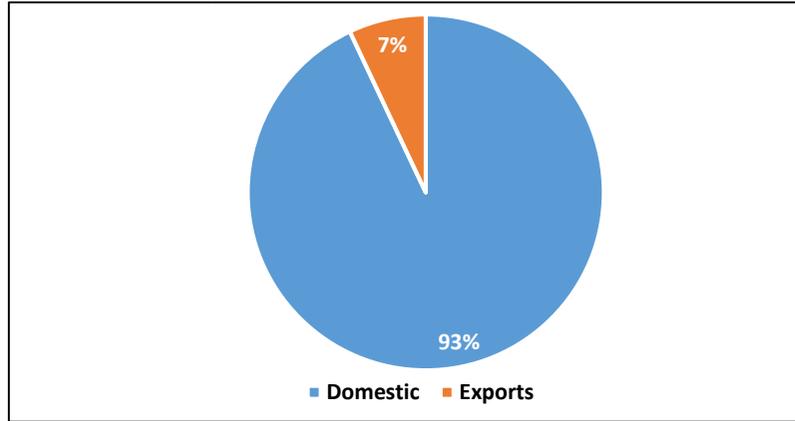
Mass market innerwear (34% of FY20 revenue) as a category is highly sensitive to pricing and any elongated phase of higher cotton prices resulting in price hikes can possibly impact growth for larger branded innerwear players.

- Lockdown had a negative impact on women's leggings segment, where Dollar is one of the leading organized players. It is also one of the high margin products for Dollar. An early end to lockdowns and resumption of normal economic activity is necessary for this segment to do well.
- Margin expansion in H1FY21 has happened due to cut in expenses (especially Advertising, Marketing and Travelling). Dollar may not be able to continue a cut in those expenses for long.

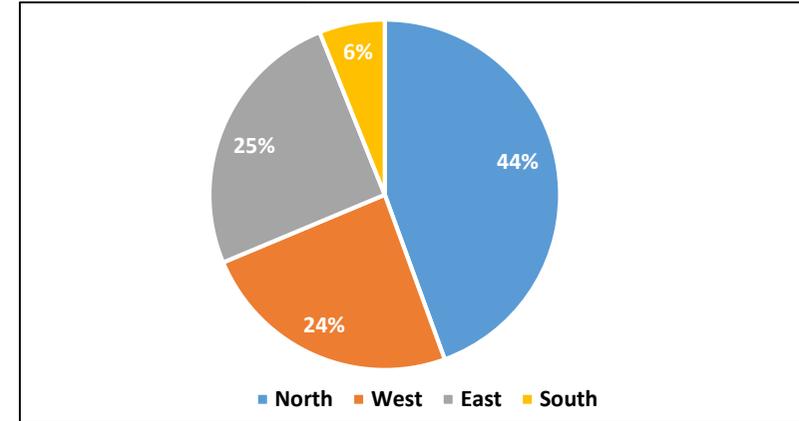
Company Profile:

Dollar Industries has been a leading innerwear and branded knitted-wear company in India. Over the years, Dollar has built a strong portfolio of brands in the economy and mid-premium segment. After having established brands like Dollar Regular, Big Boss under the 'Dollar' umbrella, It is shifting focus towards premium segment by introducing new brands and entering into newer product categories for diversifying from being a predominantly Men's Innerwear company to a lifestyle brand catering to Men, Women and Kids segments. The company is backward integrated and has manufacturing facilities are located at Kolkata, Tirupur, Delhi and Ludhiana. These facilities comprise assets dedicated to spinning, knitting, processing, cutting, stitching and packaging. As on FY20, it sold 15.73Cr pieces of which ~30-35% are made in-house and the rest are outsourced.

Geography-wise Revenue Break-up



India Region-wise Revenue-Break-up



(Source: Company, HDFC sec)

Peer Comparison

	Mcap	Revenue			EBITDA Margin			PAT			ROE			Net D/E		
		FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Lux Industries	3,950	1078	1207	1206	14.3%	14.7%	15.4%	78	99	122	28%	27%	27%	1.0	0.4	0.2
Rupa & Co.	1,835	1,120	1,149	975	14.0%	13.0%	12.0%	86	74	62	18%	14%	11%	0.2	0.4	0.3
Dollar Industries	1,065	926	1,029	969	13.0%	13.0%	11.0%	64	75	59	19%	18%	13%	0.5	0.5	0.5
Page Industries	26878	2,551	2,852	2,945	21.0%	22.0%	18.0%	347	394	343	42%	52%	42%	0.0	0.0	0.0

	EPS Growth	P/E			EV/EBITDA		
	FY20A-23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Lux Industries	24.1%	32	22	19	19	13	12
Rupa & Co.	NA	NA	NA	NA	NA	NA	NA
Dollar Industries	19.9%	15	14	12	10	9	8
Page Industries	16.2%	97	60	51	57	38	33

(Source: Bloomberg Consensus, HDFC sec)

Dollar Industries Ltd.

Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1028.8	969.3	959.3	1045.0	1155.3
Growth (%)	11%	-6%	-1%	9%	11%
Operating Expenses	892.8	863.3	820.2	897.6	992.4
EBITDA	136.0	106.0	139.1	147.3	162.9
Growth (%)	10%	-22%	31%	6%	11%
EBITDA Margin (%)	13.2	10.9	14.5	14.1	14.1
Depreciation	11.0	14.0	16.1	18.3	20.5
EBIT	125.0	92.0	123.0	129.0	142.4
Other Income	2.0	5.0	3.8	4.2	4.6
Interest expenses	16.0	16.0	13.5	10.9	9.4
PBT	111.0	81.0	113.3	122.4	137.6
Tax	35.5	20.3	28.3	30.6	34.4
RPAT	75.5	60.8	85.0	91.8	103.2
APAT	75.5	58.7	80.0	86.8	101.2
Growth (%)	18%	-19%	40%	8%	13%
EPS	13.3	10.5	14.1	15.3	17.9

Source: Company, HDFC sec

Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	11.3	11.3	11.3	11.3	11.3
Reserves	404.3	449.5	515.7	581.7	662.2
Shareholders' Funds	415.7	460.8	527.0	593.0	673.5
Total Debt	223.3	210.0	180.0	145.0	125.0
Net Deferred Taxes	0.1	1.3	0.1	1.5	0.1
Other Liabilities	0.0	0.0	0.0	0.0	0.0
Minority Interest					
Total Source of Funds	639.1	672.1	707.1	739.5	798.6
APPLICATION OF FUNDS					
Net Block & Goodwill	70.2	74.3	78.2	79.9	79.5
CWIP	2.0	14.1	14.1	14.1	14.1
Other Non-Current Assets	4.2	8.5	8.7	8.9	9.0
Total Non-Current Assets	76.5	96.9	101.0	102.9	102.5
Current Investments	5.8	6.5	7.5	8.6	9.9
Inventories	324.6	305.0	332.0	328.5	343.5
Trade Receivables	347.6	360.1	345.2	341.7	372.2
Cash & Equivalents	21.5	6.2	7.2	34.2	46.1
Other Current Assets	30.6	43.7	48.0	57.7	69.2
Total Current Assets	730.2	721.4	739.9	770.7	840.9
Trade Payables	147.0	120.0	106.2	105.1	114.5
Other Current Liab & Provisions	20.6	26.2	27.5	28.9	30.3
Total Current Liabilities	167.6	146.2	133.7	134.0	144.8
Net Current Assets	562.6	575.2	606.1	636.7	696.1
Total Application of Funds	639.1	672.1	707.1	739.5	798.6

Dollar Industries Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	109.4	77.7	113.3	122.4	137.6
Non-operating & EO items	11.1	14.2	16.1	18.3	20.5
Interest Expenses	1.8	4.1	0.0	0.0	0.0
Depreciation	15.5	15.2	13.5	10.9	9.4
Working Capital Change	-92.4	-33.8	-29.0	-2.4	-46.2
Tax Paid	-44.5	-24.6	-29.6	-29.2	-35.8
OPERATING CASH FLOW (a)	0.8	52.8	84.4	120.0	85.5
Capex	-12.9	-22.5	-20.0	-20.0	-20.0
Free Cash Flow	-12.0	30.4	64.4	100.0	65.5
Investments	-0.1	0.2	-1.0	-1.1	-1.3
Non-operating income	-2.8	-3.0	-10.8	-5.2	-2.2
INVESTING CASH FLOW (b)	-15.7	-25.2	-31.8	-26.3	-23.5
Debt Issuance / (Repaid)	43.2	-13.3	-30.0	-35.0	-20.0
Interest Expenses	-15.9	-15.1	-13.5	-10.9	-9.4
FCFE	15.3	2.0	20.9	54.1	36.1
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Others	-9.1	-9.6	-13.8	-20.8	-20.8
FINANCING CASH FLOW (c)	18.3	-38.0	-57.3	-66.6	-50.1
NET CASH FLOW (a+b+c)	3.3	-10.4	-4.8	27.1	11.9

Key Ratios

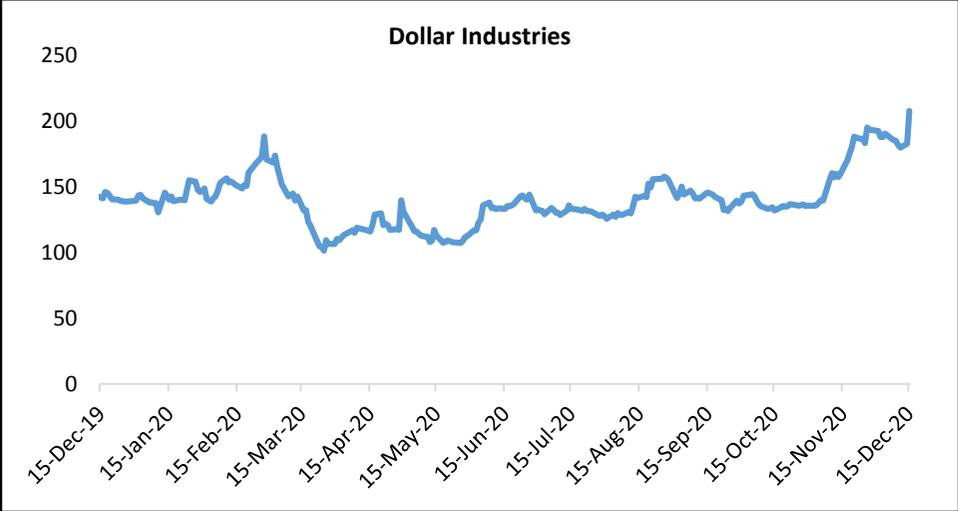
(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	13.2%	10.9%	14.5%	14.1%	14.1%
EBIT Margin	12.1%	9.5%	12.8%	12.3%	12.3%
APAT Margin	7.3%	6.1%	8.3%	8.3%	8.8%
RoE	18%	13%	15%	15%	15%
RoCE	20%	14%	13%	17%	16%
Solvency Ratio					
Net Debt/EBITDA (x)	1.5	1.9	1.2	0.8	0.5
Net D/E	0.5	0.4	0.3	0.2	0.1
PER SHARE DATA					
EPS	13.3	10.5	14.1	15.3	17.9
CEPS	15.3	12.8	16.9	18.5	21.5
Dividend	1.7	1.7	2.0	3.0	3.0
BVPS	73	81	93	105	119
Turnover Ratios (days)					
Debtor days	110	133	130	134	125
Inventory days	108	119	124	121	118
Creditors days	46	50	48	43	39
VALUATION					
P/E	16	20	15	14	12
P/BV	3	3	2	2	2
EV/EBITDA	10	13	10	9	8
EV / Revenues	1	1	1	1	1
Dividend Yield (%)	0.8	0.8	1.0	1.4	1.4
Dividend Payout	9%	26%	24%	25%	25%

Source: Company, HDFC sec

Dollar Industries Ltd.



One Year Stock Price Chart



(Source: Company, HDFC sec)

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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