JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

19th Dec 2017

DOLLAR INDUSTRIES LIMITED

NSE : DOLLAR | **Sector: InnerWear Textiles** | **NSE: INE325C01035**

View - BUY

CMP : Rs. 472

Target Price: Rs 573 (In next 12 to 15 mths)

BUSINESS BACKGROUND

Dollar Industries Limited was promoted by Dindayal Gupta under the name Bhawani Textiles and now has created substantial presence in India under the Dollar umbrella. Dollar is present across segment in innerwear space with its brands Big Boss, Force NXT, Missy, Champion, Ultra, Force Go Wear, Economy range etc. Dollars manufacturing facilities are located at Kolkata,Tirupur, Dindigul, Erode, Delhi and Ludhiana. It has fully integrated facility at Tirupur with presence in spinning, knitting, processing, cutting,stitching and packaging and caters to high end products.

In the past three years, it increased its distribution from 750+ distributors and 70000+ MBOs to 850+distributors and 80000+ MBOs.

INVESTMENT HIGHLIGHTS

Steady Financials for Dollar as on H1 FY18 –

Dollar has reported a strong set of H1FY18 numbers with net sales at Rs 451 crs, a EBIDTA of Rs 55 crs and a PAT of Rs 28 crs on a equity base of Rs 10.70 crs.

For FY17 Dollar posted a Topline of close to Rs 897 crs, a EBIDTA of Rs 92.60 crs with EBIDTA margins of 10.32% and a PBT of Rs 66.70 crs followed by a PAT of Rs 43.50 crs. On a YoY basis EBIDTA and PAT grew by 42% and 65% respectively.

Strong product bouquet and distribution network to boost sales growth –

Dollar has a strong portfolio of sub-brands like Dollar Big Boss (premium Innerwear), Missy (Women's casuals), Champion (kids), Force Go wear and Dollar Ultra Thermals and Force NXT (Premium to super premium segment). Dollar has products priced in the range of Rs 50- Rs 650 with a presence in both innerwear and knitted outerwear. Dollar has continuously strived at new product introduction and launched 114 new products in FY17

Dollar has also increased its distributor base and has expanded the same from 750 in FY15 to 850 in FY17 while presence in multi-brand outlets has increased from 70,000 to 80,000. It has also started focussing on selling to large retail chains and also ramping up its online presence.

KEY DATA

FACE VALUE Rs	2.00
DIVD YIELD %	0.25
52 WK HI/LOW	493/263
NSE CODE	325C01035
BSE CODE	-------
MARKET CAP	RS 2548 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIIs	-	7%
FIIs	-	3%
PUBLIC	-	35%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	11	16	15
EBIDTA Gr%	32	28	16
PAT Gr%	45	38	26
EPS Gr%	45	38	26
EPS (Rs)	11.69	16.13	20.39
ROE %	29	30	29
ROCE %	22	24	25
P/E(x)		29	23

Dollar aspires to become a Rs 20 bn revenue corporate in the next 5 years –

During the last 4 decades Dollar Industries has been able to achieve Rs 9 bn of revenue. Dollar has a vision to achieve a Rs 20 bn revenue/topline in the next 5 years and plans to to achieve the same through, a shift from unorganized to organized shift, increased volume growth in the economy product segment, penentration in super premium segment (Force NXT) and higher contribution from Women's wear segment (Messi), and by pushing growth of existing brands (Big Boss and Dollar Regular), as well as tapping new markets and via tie-ups and JVs with foreign brands in future. Going ahead the management has clearly hinted that growth would be more value driven and would be higher in terms of the bottomline

Increased focus on super premium segment –

Dollar has traditionally been present in the economy and mid-premium segment through its Dollar Regular (Realization Rs 35/piece) and Big Boss (Realization Rs 62 per piece) brands with 34% and 44% revenue contribution, respectively. It is now focusing on super premium category with its brand Force NXT (Realization Rs 114/piece) launched in August 2015 and which contributed 2% of FY17 sales. It aims to grow this brand focused on aspirational segment to over Rs 1 bn in next 3 years and would go for aggressive advertisement to position it. Further, Missy is expected to do well with women innerwear and leggings.

The management expects that there is a big market opportunity to grow by focusing on segments between mid-range product and Super premium products offered by Jockey. Most of the organized players are focusing on filling this gap by launching their products in this segment. Lux is focusing on this through ONN brand, Rupa through 'Macroman M-series' & 'Macrowoman W-Series'. Dollar is doing the same through Force NXT which will help it to tap the opportunity between Jockey and Big Boss. Dollar plans to focus on quality, comfort, design, packaging, and would distribute its products through Modern retail, through Shop in Shop, EBOs, MBOs, etc.

Robust ad spends to sustain going ahead also –

Dollar is one of the highest spenders (10% of sales) on advertising among peers Page, Rupa and Lux (4%, 8% and 6%, respectively). Dollar is also planning to maintain advertisement spend run rate at 8-10% of revenue in future as well. Of the Rs 86 crs expended in FY17, around Rs 40 crs was on TV, Rs 20 crs was spent on newspaper medium and the balance on outdoor activities. Dollar has roped in celebrities to promote its brand in 2010 wherein Akshay Kumar was brand ambassador

Premium products to drive EBITDA margin improvement –

Peers like Rupa and Company (Rupa) and Lux industries (Lux) have higher EBITDA margin compared to Dollar as it had concentrated on gaining market share by pricing its products marginally lower than other mainstream players like Rupa and Lux.

With brands of Dollar having gained substantial acceptance amongst consumers, it has launched its premium brand ‘Force NXT’ (revenue contribution of 2%) and focussing to achieve strong growth in the premium segment by aggressive advertisement spend and brand promotion activities. The company expects EBITDA margins to improve going ahead on the back of increased share of premium products and gradual increase in prices

Going ahead focus will be on scaling up 'Force NXT' brand –

Dollar has been spending around 8-10% of its revenues on advertisement expense with majority amount being spent on Big Boss brand with Akshay Kumar as the brand ambassador. Going ahead the company is expected to spend a fixed amount on advertisement of Big Boss, while Force NXT brand advertisement expense is expected to be accelerated in order to position it as a super premium brand

Presently Big Boss (Sales realisation between Rs 60- Rs150) contributes around 44% of the revenues, While Economy segment (sales realisation between Rs 50- Rs 75) contributes 34%. 'Missy', the women's brand contributes 6%, while Thermals contribute 6% of total revenues. Exports contribute around 9% of revenues.

No major capex planned and going ahead WC reduction will be the main focus –

Dollar does not have any capex plan as it has already done capex by going backward. It has 400 tonnes per month spinning capacity, 300 tonnes per month knitting capacity, 400 tonnes per month Dyeing and bleaching capacity, 1 mn meters per month elastic capacity and 3 lakh pieces per day cutting capacity.

Dollar carries stitching through job work. The backward integration would help it in offering quality product for Force NXT brand. Dollar was giving higher credit to its distributors to push its products. It believes there is scope to reduce debtors (85 days) by 10-15 days as its established strong brand in mid and economy range, which gives it room to reduce credit to distributors

Dollar enjoys a wide distribution network which is very important in this business –

Dollar is focused on increasing its distribution across region. Presently, it is strong in north, west and east regions which together contribute 92% of its topline. Southern India contributes only 8% to its topline, where it aims to increase presence. In the past three years, it increased its distribution from 750+ distributors and 70000+ MBOs to 850+ distributors and 80000+ MBOs. It is increasing focus from conventional distribution to large format stores, modern retail and ecommerce, specially for selling premium products

Dollar is backward integrated and has manufacturing locations at Tirupur, Kolkatta, Delhi and Ludhiana with spinning capacity of 400 tonnes per month, knitting capacity of 300 tonnes per month, dyeing and bleaching capacity of 400 tonnes per month, cutting capacity of 3 lac pieces per day and elastic production capacity of 10 lakh metres per month.

Implementation of GST is positive for organized brands & for Dollar going ahead –

The Dollar management believes that the industry is 50% unorganized and expects shift to happen from unorganized to organize in the longer run after implementation of GST. Presently, there is a 10% gap in terms of manufacturing cost between organized and unorganized in economy segment which the management expects should come down to 5% post GST.

Further, the organized players would also get setoff on service tax paid on advertisement expenses (8-10% of revenue), which will give them more room to compete against unorganized players and which will positively impact EBITDA margins.

Overall the Innerwear Market is likely to grow at a healthy pace in the next 3-5 years –

The Indian innerwear market is currently estimated at Rs. 24,000 crs. The segment has grown at 15% during the period from 2010 to 2015. During this period, the share of intimate wear in the total apparel market increased from 6.4% to 7.1%. The innerwear market is estimated to continue at the same growth rate over the next five years and expected to become a Rs. 47,000 crs market which is nearly 8% of the total estimated apparel market, by the year 2020

Indian intimate wear market is dominated by women's segment which currently forms over 60% of the overall market and is valued at Rs. 14,500 crs. This segment has outperformed the overall market as well as men's segment, which currently holds 35% of the total market. Kid's intimate wear market merely has a 4% share in total market.

The men's innerwear market is currently valued at around Rs. 8,500 crore. It has grown at a CAGR of 14% since 2010. With increasing disposable income and changing consumers' attitude towards the category, the segment is expected to maintain the growth to reach Rs 16,500 crs by 2020

Almost 65% of this market is unorganized as the market is very fragmented, with large number of smallscale players operating in this segment. A lot of manufacturers have been very local area centric and supplying only in their vicinity. However, the market structure is evolving and gradually moving towards the organized retail structure

The present market trends show an inclination amongst Indian men to spend more on innerwear, leading to an aggressive growth in this category, especially in the premium, super premium and luxury price segments. Though, MBOs are still considered to be the most preferred channel for buying innerwear, the organized retail formats such as EBOs (Exclusive Brand Outlets), departmental stores and LFS (Large Format Stores) are also gaining traction and popularity as more and more brands are entering into the premium range.

The recent popularity of online retail, especially for apparel shopping has also permeated into the innerwear category giving much more exposure to the consumer. The online retail is giving consumers the accessibility to high end brands in the cities where these brands have no physical presence yet.

The marketing mix is often crucial when determining a product or brand's offer, and is often associated with the four Ps: product, price, place and promotion. These four Ps determine the future of the brand in the market. The success of Jockey is one of the example for the same. The brand and its Indian partner company have got all these aspects right to become the favorite brand of the people.

All the major Indian brands are primarily in the mass to medium segment while the foreign brands dominate the higher price segments. The Indian market is highly price sensitive and people are cautious while spending much on this category.

But lately, with the changing trend of men indulging in innerwear buying and willing to spend more for better and designer products, the Indian players are also responding to these changing consumer preferences. Some Indian brands like Rupa, Amul have introduced their premium brand extensions like Rupa Euro, Rupa Macroman, Amul Macho in order to span their product range across the price ladder and cater to the rising numbers of indulgent customers, without losing their core customers.

Within the Innerwear market the top three segments that is Luxury, Super Premium and Premium are expected to grow at a higher pace in the future as the consumers are willing to spend more in the future owing to the increasing buying power and rising brand consciousness.

Comparatively the Economy and Low price segment though will grow in the volume and value terms but their share in the total innerwear market pie will reduce. It is also expected that the brands in the low segment will try to move up the pyramid while diversifying into new product categories

Distribution channel plays a very crucial role in the success and acceptance of the product. Putting the right item, at the right cost, at the correct spot, at the opportune time. Today it is becoming increasingly important for the brands to be available where their consumers are and not waiting for their consumers to come to them

As MBO is the most preferred channel of sales in this category, so all the brands which are exclusively for innerwear are available there. LFS has a particular section for the men's innerwear and it is dominated with the famous brand names which mostly fall into medium price segments and above.

Several fashion brands are increasing their focus on this category to grab higher share of wallet of their target consumers. They have leveraged their store network and have a dedicated shelf within their stores for innerwear. However, in the case of Innerwear only brands, exclusive brand outlets is an emerging concept with only two of them present in EBOs right now with Jockey being an old player and VIP with newly opened stores.

Brands with large product portfolio have their own online portals and are gaining popularity as the reach of these stores is much wider than those of the physical stores. The presence of all the brands across online marketplaces shows how rigorous all these brands are about their visibility, awareness and popularity across the emerging channels to cater to the evolving Indian consumer.

Due to the emerging competition, the companies have to be pretty rigorous in promotional activities to maintain the present share in the market and to gain new customers. The category is highly advertised and the core innerwear brands are focusing majorly on the TV commercials by roping in the Brand ambassadors from Bollywood viz. Akshay Kumar, Hrithik Roshan, Shahrukh khan etc. In addition to TV advertisements they are exploiting other media:- print media with full page advertisements especially on weekends, activities on social media, event sponsorship, in-shop branding, product posters, dealer board branding, retail gate branding etc.

With rising consumerism, the Indian consumers are in the middle of a transitional phase. The new age Indian customer is radically different from what one could have imagined only a few years ago. The changes are reflected in both the core value system, the general lifestyle as well as the purchase choices.

And this change has also trickled down to intimate wear, a category earlier perceived as 'hidden'. The new age customers of intimate wear are indulgent and include everyone from 'pocket-money to pension'. These consumers belong to the aspirational class, a segment constantly striving for a better lifestyle and upper class, those who have high disposable incomes and can afford better products & lifestyle.

With the changing social dynamics and buying power, men are becoming conscious of brands in intimate apparels too. While they still shop with mom and pop stores, they have also started exploring newer avenues like brand EBOs, LFS and online platforms. This paradigm shift in this sector can be attributed to aggressive marketing techniques of innerwear brands targeted at the aspiring and open-minded young middle class population. With increasing disposable incomes, they have shifted from need based shopping to splurging on styles. Many fashion brands have expanded their brand labels in menswear to men's innerwear as well. Displaying the waistband of innerwear above the low-waist trousers is now considered a fashion statement.

The consumer trends show that price is no more the most important criteria that is looked upon while buying innerwear. For evolving consumers, looking good has become an important aspect of life therefore, spending on apparel, personal care & grooming is on the rise.

Dollar enters in to a JV with PEPE for branded innerwear products –

Dollar Industries has entered in to a JV with PEPE Jeans of Europe which will be a 50:50 joint venture and will involve a capex of Rs 250 crs and be valid for the next 1o years on a exclusive basis for catering to markets like India, Srilanka, Bhutan, Nepal, and Bangladesh.

This partnership under this JV will require Rs 36 crs to be invested each by both partners that is Dollar and PEPE over the next 4 years and the rest will be funded by banks and working capital loans. Dollar expects that it will be in a position to launch these PEPE branded products in the domestic markets by March 2018.

These products would be marketed under the PEPE Jeans London brand here. The products made here will include innerwear and loungewear categories like gym wear, track suits, and sleepwear.

Dollar enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

In terms of financial performance for FY17, Dollar has posted a Topline of close to Rs 897 crs, a EBIDTA of Rs 92.60 crs with EBIDTA margins of 10.32% and a PBT of Rs 66.70 crs followed by a PAT of Rs 43.50 crs, On a YoY basis EBIDTA and PAT grew by 42% and 65% respectively.

Dollar has shown consistent growth since last 4 years starting from FY13 onwards when its Topline was Rs 686 crs which has now touched nearly Rs 900 crs as on FY17 while PBT has improved from 20 crs in FY14 to Rs 67 crs in FY17 with net margins progressively up to around 5% in FY17 In H1 of FY18 Alankit has recorded a net of Rs 2.13 bn which was up by 8% this was due to demand being impacted by GST related destocking and restocking that happened towards the end of September 2017 month. As per the management, the demand scenario has improved post GST and expect H2FY18 to be much better than H1FY18 with revenue expected to be Rs 5.8 bn (around 30% yoy growth). This would be driven by restocking in the system, robust performance by brands and strong winter positively impacting thermal products.

For FY17 ROE and ROCE stood at 24% and 17% respectively and by FY20 we expect the ROE and ROCE to touch 29% and 25% respectively. DE is at 1.13 :1 as on Mar 2017 and is likely to be 0.50 :1 by FY20. .

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 24-27% and going ahead also we believe that net cash flows generated will remain healthy going ahead.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 997 crs.

On the bottomline level we expect the company to record a PAT of Rs 63.10 crs in FY18E. Thus on a conservative basis, Dollar should record a EPS of Rs 11.69 for FY18E. For FY19E and FY20E our expectation is that earnings traction for Dollar will continue to remain strong wherein we expect a EPS of Rs 16 and Rs 20.39 respectively.

As per the management, the demand scenario has improved post GST and expect H2FY18 to be much better than H1FY18 with revenue expected to be Rs 5.8 bn (30% yoy growth). This would be driven by restocking in the system, robust performance by brands and strong winter positively impacting thermal products.

Premium and mid segment brands performed well in H1FY18 on yoy with Big Boss contributing 45% (vs 44%), Missy 7.3% (Vs 6%), Force NXT 3.8% (Vs 2%) and Champion 5.6% (vs 2%) of revenues. The volume in H1FY18 grew by 1.8% yoy while price increased by 2.6% yoy in the period.

Dollar is very positive on its premium end brand Force NXT and expect the segment to grow at over 100% in coming years. As per the company management, Force NXT competes with entry level products of Jockey with relatively better product quality and design. Further, its JV with Pepe Jeans would be operational by Q4FY18 end and is expected to contribute Rs 60 crs revenue in its first year and be EBITDA positive in two years.

We expect that going ahead overall bottomline growth in the next 3 years starting FY17 onwards should easily increase at a CAGR of 24-27% with the ROE and ROCE is also expected to improve to 30% and 29% and 24% and 25% by FY19 and FY20.

We believe the stocks in the innerwear segment like Page Industries, Lovable Lingerie, Rupa & Company and Dollar are similar to consumption sector stocks like Marico, Dabur, Titan Industries, Asian Paints and Jubilant Foods. The performance of these (consumption) companies is also driven by brand preferences, rising disposable incomes, etc. The innerwear segment stocks are trading at a multiple of 22-27x one year forward earnings. We believe this sector deserves to trade at such multiples considering the superior return ratios, healthy free cash flow generation, consistent growth and healthy dividend payouts.

Hence we believe that the Dollar stock should be purchased at the current price for a price target of around Rs 573 for the next 12 to 15 months

FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18E	FY19E	FY20E
Net Sales	897.3	997.1	1160.2	1334.23
EBIDTA	92.6	121.8	155.4	180.12
EBIDTA %	10.32	12.22	13.39	27.2
Interest	19.7	17.1	16.1	15.5
Depreciation	14.8	15.1	15.5	16.00
Non Operational Other Income	8.60	5.00	5.00	5.00
Profit Before Tax	66.7	94.6	128.8	153.62
Profit After Tax	43.5	63.1	87.1	110.1
Diluted EPS (Rs)	8.06	11.69	16.13	20.39
Equity Capital	10.8	10.8	10.8	10.8
Reserves	170.1	233.2	320.3	430.4
Borrowings	205.00	190.00	195.00	190.00
GrossBlock	151.2	152.00	153.00	154.00
Investments	0.03	0.03	0.03	0.03

Source Company our Estimates

KEY CONCERNS

Volatile raw material prices.

Cut-throat competition.

Muted consumer sentiment.

DISCLAIMERS AND DISCLOSURES

This document has been prepared by Joindre Capital Services Limited **SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555** and is meant for the recipient only for use as intended and not for circulation. This document should not be reproduced or copied or made available to others. Recipients may not receive this report at the same time as other recipients. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, Joindre Capital Services Limited,its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Joindre Capital Services Limited, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report. This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behaviour of investors or recipients or provide any investment/tax advice. This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis. Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital. Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of Joindre Capital Services Limited, its directors, officers, or employees. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

CONTACT DETAILS

Mr. Avinash Gorakshakar (Research Head) Tel.: 4033 4766, Email: avinashg@joindre.com

Mr. Vikas Khandelwal (Research Sr. Executive) Tel.: 4033 4900 Email: vikas@joindre.com

COMPLIANCE TEAM

Mr. A. P. Shukla (President & COF) Tel.: 4033 4723 Email: shuklaap@joindre.com

Mrs. Sujata Poojary (Sr. Executive) Tel. : 4033 4567 Email: compliance@joindre.com

Mrs. Nikita Shah (Sr. Executive) Tel. : 4033 4567 Email: compliance@joindre.com