Volume No. XV Issue No. 20 **13 January 2024**

Dollar Industries

Rs 449

Established brand with 15% market share in the Indian Hosiery space

Sensex: 72,568 Nifty: 21,895

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEPRECIATION	PBT	TAX	PAT	EPS (Rs)*
2103 (12)	1036.96	13.32	138.08	3.48	141.56	8.79	132.78	15.47	117.31	30.03	85.32	15.04
2203 (12)	1342.53	16.37	219.79	6.53	226.32	9.62	216.69	16.58	200.12	51.17	147.09	25.93
2303 (12)	1393.83	7.05	98.25	4.75	103	14.22	88.78	17.64	71.14	13.18	52.45	9.26
2403(P)	1515.49	10.06	152.52	3.09	155.61	15.11	140.5	17.45	123.05	29.37	89.84	15.7
2503(P)	1697.35	13	220.65	3.34	223.99	15.87	208.13	18.32	189.81	47.28	138.12	24.4

* EPS is on current equity of Rs 11.3432 crore, Face value of Rs 2. # EPS is not annualised due to seasonality of business. Figures in Rs crore.
Source: Capitaline Databases

Dollar Industries (DIL) is primarily engaged in manufacturing innerwear for men, women, and kids. The company also manufactures athleisure, kids wear, along with thermals/ winter wear and lounge wear. "Dollar" brand for hosiery was established by Mr. Dindayal Gupta, in 1973 through a proprietorship firm, Bhawani Textiles, and converted into a public limited company in 1993. The company has a market share of 15% in the Indian Hosiery space.

The company has an extensive product portfolio and markets its products under Dollar Man, Dollar Woman, Dollar Junior, Dollar Always and Dollar Thermals to cater to the requirements of all classes of people. DIL has a distribution network of over 1,500 dealers and over 1.4 lakh retailers.

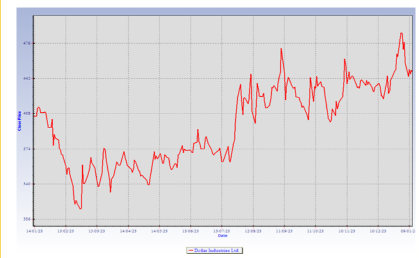
The company has 4 manufacturing units with a capacity to manufacture 210 million pieces. The company also has a 4 MW solar power plant generating 75 lakh power units annually and 4 windmills of 4.95 MW generating around 70 lakh power units annually in Tamil Nadu for captive consumption.

Established brand presence with diversified product portfolio

The company over the years has broadened its product portfolio, which now spans innerwear products across wide price ranges, thermal wear, casual wear and athleisure wear. DIL has been able to establish itself in the highly competitive economy and mid-premium inner wear segment. The continuous addition of new products across segments through its established brands like Bigboss, Regular, Missy, ForceNXT, etc with focus on replenishing the design inventory regularly has aided DIL to carve out a decent market share in the intensely competitive domestic hosiery industry. The company has a market share of 15% in the Indian Hosiery space.

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 418 crore behind advertisement and promotion activities (7.3% of total FY19-23 revenues). The company targets annual advertisement expenditure in the range of 6-6.5% for FY2024.



STOCK DATA

BSE Code	:	541403
BSE Group	:	B
NSE Code	:	DOLLAR
Bloomberg	:	DOLLAR IN
Reuters	:	DLLA BO
Par Value	:	Rs 2
52-week High/Low	:	Rs 492 / 310
Sector	:	Readymade Garments / Apparells

SHAREHOLDING PATTERN*

Category		% of equity
Foreign	:	0.88
Institutions	:	0.57
Govt Holding	:	0.00
Corporate Holding	:	9.17
Promoters	:	73.09
Public & Others	:	16.30
Totals	:	100

* as on 30/09/2023. *Source: Capitaline Databases*

A significant part of these investments has been allocated towards mid-market brand “Bigboss”- endorsed by Akshay Kumar, Saif Ali Khan for Doallar Always and women’s legging brand “Missy”. 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.

Within the entire basket of company’s brands, as on FY23, Dollar- Bigboss and Dollar- Regular (Lehar) contributed 41.7% and 39.8 of overall branded B2C business followed by Missy and Thermal- Ultra which contributed 9.3% and 5.4% 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 Srilanka. It has been in process of scaling-up brand “Pepe” through continuously expansion of its product range.

In last 5 years it has spent Rs 418 crore behind advertisement and promotion activities (7.3% of total FY19-23 revenues)

Strong distribution network

DIL has a wide distribution network of over 1,500 dealers and over 140,000 retailers along with around 15 depots and 20+ warehouses currently. Further, the company is also exporting its products to 15 countries, which contributed to about 6% of revenue in FY23 (5% in Q2FY2024).

E-commerce sales were on the rise even before the pandemic owing to convenience of operations and cheaper data availability pan-India. It saw a steep upward curve post-pandemic as most people became technology-savvy and used to this mode of purchase. E-commerce witnessed a boom, per se. The company has also planned to grow its online sales which would be helpful in the current environment. The company has invested in software across departments to facilitate its e-commerce sales. E-commerce constituted 2% of the total sales in Q2FY2024(3% in HIFY2024). The company aims 8% revenue contribution from e-commerce by FY2026.

The company has aggressively pursued various marketing and promotional activities to improve its geographical reach and compete with existing players in the industry. The company has around 18 exclusive brand outlets and would open 125 exclusive brand outlets, mostly in tier II and tier III cities by 2025.

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 it reach.

The project rollout was impacted during the lockdown period; however, the company has accelerated the process now. Presently, Lakshya distributors are operating in 13 states.

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The company remains steadfast in its commitment towards continued growth and success of Project Lakshya, and has added 22 distributors under this project in Q2 FY24. The contribution of Project Lakshya distributors stood at 25.4% in H1FY24 up from 18.6% in FY23. The company is confident that over 70% of its distributors will be covered under Project Lakshya by FY2026 and this will go a long way in increasing the market share and improving margins.

Availability of partial backward integration

DIL has set up a factory for backward integration in the form of spinning and knitting mill near Tirupur (in Tamil Nadu) which caters for 30-35% of the company's raw material requirements and helps to mitigate the fluctuations in raw material prices and quality to a certain extent.

The company owns 4.95 MW of windmills in Tamil Nadu, which caters to the power requirement of its spinning mill. DIL, in FY21, commissioned a solar power plant with a capacity of 4MW in Tirupur for captive consumption with the capacity of generating 75 lakh power units annually. For this, the company has invested Rs 18 crores and the payback period for the same is expected five years. Further the company plans to add another 2 MW solar power capacity (CAPEX of around Rs 5 crore).

Also, from 2008 – 2013, the company had installed 4 windmills with a power generation capacity of 4.95 MW to generate approximately 70 lakh units of power annually. These initiatives will aid reduction in power cost over time for the company.

Adding capacity to aid margin expansion:

The company has earmarked around Rs 120 crore for expansion and new launches, including an upcoming modern warehousing facility-cum-hosier park at Jagdishpur in Bengal and a spinning mill at Dindigul.

The company produces yarn which is sufficient for 25% of its total needs. The balance 75% is outsourced which may sometimes lead to a delay in procurement. To combat this, they plan to spend Rs 60 crore to increase capacity of their spinning unit from 22,000 spindles to 42,000 spindles. This is done in the same unit hence no cost is incurred for acquiring land. The entire cost would be towards construction of the shed and purchase of machinery. The same is expected to be commissioned in FY2024.

The company also commissioned an integrated ware house in West Bengal at cost of Rs 50 crore in the month of September 2023. This will aid improved operational efficiencies, cost savings on rent and overhead of several warehouses, better control of inventory and catalyzing Project Lakshya distribution expansion and related ERP initiatives.

Branded innerwear opportunity is BIG; structural drivers at play

Men's innerwear category in FY2020 is estimated to be US $1.9 billion and is expected to grow at a CAGR of 10.3% to US $3.1 billion in FY2025. Men's casual and active wear category in FY2020 is estimated to be US $7.7 billion and is expected to grow at a CAGR of 13.9% to US $14.9 billion in FY2025. Women's casual wear category in FY2020 is estimated to be US $0.9 billion and is expected to grow at a CAGR of 16.1% to US $1.9 billion in FY2025. Women's innerwear category in FY2020 is estimated to be US $4.4 billion and is expected to grow at a CAGR of 14% to US $8.5 billion in FY2025. The kids wear market in India is currently about $14 billion (FY20) and is expected to grow at a CAGR of 10.5 per cent and grow to nearly $23 billion by FY 2025.

The company is confident that over 70% of its distributors will be covered under Project Lakshya by FY2026 and this will go a long way in increasing the market share and improving margins

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Right from demonetization to GST and now post pandemic, strong consolidation across the branded knitted-wear industry is expected. 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.

The company plans to open 125 exclusive brand outlets by FY2025 mostly in tier II and tier III cities

Strong volume growth across brands in Q2FY2024

For the three months ended September 30,2023, consolidated sales were up by 21.2% YoY to Rs 412.52 crore. Operating profit margin (OPM) increased from 8.91% to 10.12%, leading to a 37.7% increase in operating profit to Rs 41.74 crore. The PBIDT was up by 37.6% to Rs 42.27 crore with OI higher by 35.0% to Rs 0.53 crore. PBT before exceptional items stood at Rs 33.42 crore when compared to Rs 21.84 crore. The company reported Net profit after minority interest of Rs 24.87 crore compared to profit of Rs 17.29 crore of the corresponding quarter of previous year.

For the six months ended September 30,2023, consolidated sales were up by 5.5% YoY Rs 740.8 crore. Operating profit margin (OPM) declined from 9.62% to 9.29%, leading to a 1.9% increase in operating profit to Rs 68.8 crore. The PBIDT was down by 0.6% to Rs 70.0 crore with OI lower by 59.4% to Rs 1.2 crore. PBT before exceptional items stood at Rs 52.8 crore when compared to Rs 53.5 crore. The company reported Net profit after minority interest of Rs 39.40 crore compared to Rs 44.25 crore of the corresponding period of previous year.

For the fiscal ended March 2023, the sales were up by 3.8% to Rs 1393.83 crore. With OPM contracting by 932 bps to 7.05%, the OP was lower by 55.3% to Rs 98.25 crore. The PBIDT was lower by 54.5% to Rs 103.0 crore. PBT before exceptional items stood lower by 66.9% to Rs 65.63 crore. Net profit was lower by 64.3% to Rs 52.54 crore compared to Rs 147.09 crore in the previous year.

Outlook:

With a strong brand recall, shift in consumer preferences towards affordable branded quality products, increase in retail network, and market share gains through focus on project Lakshya, and an integrated warehouse in Kolkata,West Bengal together will contribute towards robust growth of the company.

The company expects over 70% of its distributors to be covered under Project Lakshya by FY2026 and this will go a long way in increasing the company's market share and improving margins.

The company plans to open 125 exclusive brand outlets by FY2025 mostly in tier II and tier III cities which will help further in increasing revenue and gain market share.

The company has guided for a revenue growth of 11-12% in FY2024 and EBITDA margins of around 11-12% for FY2024. The company expects EBITDA margins to improve on back of stabilizing raw material prices and no carry forward of high cost inventory.

In a couple of years, the company expects to reach a steady-state EBITDA margins of around 14% to 15%.

The company expects EBITDA margins to improve on back of stabilizing raw material prices and no carry forward of high cost inventory

Valuation

We expect the company to register consolidated EPS of Rs 15.7 for FY24 and Rs 24.4 for FY25. The scrip is trading around Rs 449, which discounts the FY25 EPS by around 18 times.

DOLLAR INDUSTRIES : CONSOLIDATED RESULTS

	2309 (3)	2209 (3)	VAR.(%)	2309 (6)	2209 (6)	VAR. (%)	2303 (12)	2203 (12)	VAR %
Sales	412.52	340.44	21.2	740.8	702.1	5.5	1393.83	1342.53	3.8
OPM (%)	10.12	8.91	121 bps	9.29	9.62	-33 bps	7.05	16.37	-932 bps
OP	41.74	30.32	37.7	68.8	67.5	1.9	98.25	219.79	-55.3
Other inc.	0.53	0.39	35.0	1.2	2.9	-59.4	4.75	6.53	-27.3
PBIDT	42.27	30.71	37.6	70.0	70.5	-0.6	103.00	226.32	-54.5
Interest	3.89	3.85	1.0	7.4	6.8	7.6	14.22	9.62	47.7
PBDT	38.38	26.86	42.9	62.7	63.6	-1.5	88.78	216.7	-59.0
Dep.	4.27	4.35	-1.8	8.4	8.6	-1.7	17.64	16.58	6.4
PBT	34.11	22.51	51.5	54.2	55.0	-1.5	71.14	200.12	-64.5
Taxation	8.55	4.56	87.5	12.8	9.2	38.4	13.18	51.17	-74.2
PAT	24.87	17.29	43.9	40.0	44.3	-9.6	52.45	147.09	-64.3
EPS (Rs)*	#	#		#	#		9.3	25.9	

* EPS is on current equity of Rs 11.3432 crore, Face value of Rs 2. # EPS is not annualised due to seasonality of business. Figures in Rs crore.
Source: Capitaline Corporate Database