



“Dollar Industries  
Q2 FY2020 Earnings Conference Call”

November 13, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the Dollar Industries Limited Q2 FY 2020 earnings conference call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tiwari from SBICAP Securities. Thank you and over to you Sir!

**Prashant Tiwari:** Thank you. Good afternoon everybody. This is Prashant Tiwari from SBICAP Securities. I am responsible for mid cap coverage here. Today from the management of Dollar Industries, we have Mr. Vinod Kumar Gupta – Managing Director, Mr. Ankit Gupta – CFO, and Ms. Sashi Agarwal – Senior Vice President – Corporate Strategy and Investor Relation. I now request Mr. Vinod Gupta to start with his opening remarks and that will be followed by Mr. Ankit Gupta’s presentation. Mr. Vinod.

**Vinod Kumar Gupta:** Good afternoon and a warm welcome to everyone on the earning call of Dollar Industries Limited for Q2 FY2019-2020. I would like to welcome Mr. Ankit Gupta as our new CFO of the company. As we know, the Indian economy is presently experiencing a structural growth slowdown originating from declining household savings rate and low agricultural growth. Private consumption which contributes nearly 55% to 60% to India’s GDP is also slowing down. The Indian economy continues to grow at slow pace as the impact of changes made over the last couple of years are now being felt. The impact of this is seen more at our channel partner level where availability of liquidity is still a bit challenge.

The collections remains weak with the channel partners and also the efforts are being put in by the company to get the debtors pay down to normal. We continue our focus to increase reach and range by rolling out the model which we tried in south India. This will be a long journey for us which will enable us to remodel our distribution channel. The company is fully dedicated to increase its consumer base through modern distribution route with an assurance to provide its consumers with best quality and trendy products at affordable prices. This is all from my side. I shall now hand over to Ankit to talk to you about the financial performance of the company for this quarter.

**Ankit Gupta:** Thank you Sir. Good afternoon everyone and I welcome you all to Dollar Industries Limited Q2 earnings call. The company achieved total revenue of 243.76 Crores and Rs.477.70 Crores for Q2 FY2020 and H1 FY2020 as compared to Rs.243.02 Crores and Rs.486.83 Crores for Q1 FY2019 and H1 FY2019. This implies a growth of 0.3% for Q2 FY2020 and decline of 1.88% for H1 FY2020.



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The EBITDA for the company stood at Rs.23.80 Crores, that is 9.77% for Q2 FY2020 and Rs.51.13 Crores that is 10.7% for H1 FY2020 as against Rs.36.43 Crores that is 14.99% for Q2 FY2019 and Rs.64.85 Crores that is 13.32% for H1 FY2019. The PBT stood at Rs.16.36 Crores that is 6.71% for Q2 FY2020 and Rs.36.33 Crores that is 7.61% for H1 FY2020 as against Rs.30.19 Crores, that is 12.42% for Q2 FY2019 and Rs.52.57 Crores that is 10.8% for H1 FY2019.

The PAT stood at Rs.13.95 Crores that is 5/72% for Q2 FY2020 and Rs.27 Crores that is 5.65% for H1 FY2020 as against Rs.20.04 Crores that is 8.23% for Q2 FY2019 and Rs.33.8 Crores that is 6.94% for H1 FY2019.

The debtors as on September 30, 2019 stood at Rs.321.76 Crores across 126 days as compared to 110 days as on March 31, 2019. The inventory as on September 30, 2019 stood at Rs.315.18 Crores that is 121 days as compared to 127 days as on March 31, 2019. The creditors as on September 30, 2019 stood at Rs.119.12 Crores that is at 50 days as compared to 46 days as on March 31, 2019. The total working capital cycle stands at 196 days as compared to 171 days. The company will continue its endeavor to reduce the debtors days by working with its distribution network and we are sure that we will be able to further trim our working capital cycle in future times.

Now moving on to the brand wise breakup, Big Boss stood at 45%, Missy 9%, Champion 0.5%, Force Go Wear 0.5%, Force NXT at 2%, economy range of products 34%, thermals at 5%.

I now open the forum for Q&A. Thank you.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Andrea Purushotam from Cogito Advisor. Please go ahead.

**Andrea Purushotam:**

There are two related questions. One was that a couple of years before when we had met, we had said that we are going to engage consultants to streamline our distribution processes etc. So I wanted to know what is the general update on that initiative and what effect is it having in the demand and supply? Second thing was essentially the last few quarters the performance both in terms of top line and bottom line has been rather disappointing, so what do you think explains this disappointing performance and what do you think can be done and is being done by the company to improve our prospects for the future?

**Sashi Agarwal:**

To your first question, we were talking about the consultant, we have already engaged with them, we started with a small pilot in south which yielded a very good results after a few observations for six to eight months, we have decided that we will definitely go for a full



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rollout and the process is on. So probably by the end of December, that is what we have targeted that at least we complete one of the cities. One thing I would like to mention before I go any further here, that replicating anything initially takes time, but once you have the entire replication model is ready and up and running, the replications becomes faster. So as you move in the projector towards the end, the things are easier to copy and replicate than in the initial stages. So when we say that by end of December completing certain cities, it might sound too pessimistic because if this is the speed which we work on, how will we ensure that we have a steady completion of that particular project in the minimum possible time, to that I would say that it definitely takes certain time in terms of the quarters are concerned, may be I have put a one and a half year target to it saying for the entire rollout, that is what we are really looking at. It is one and a half year to complete the complete rollout for pan India, but as of now, by end of December we are looking at certain good numbers in terms of may be completing one of the southern cities in south India.

**Andrea Purushotam:** On the performance, is it possible for the promoter to comment on this, because this has been disappointing for quite a while and we are not seeing much improvement or hope around the horizon?

**Sashi Agarwal:** Yes sure, I will definitely hand it over to Mr. Vinod Gupta here. Before that I would like to add certain things, in terms of the performance of the bottom line is concerned, there are certain changes in the inventory and high cost material which was sitting into our account which was consumed in this particular quarter. So the inventory of the raw material, the yarn, the cottons that were purchased at a high price has maximum been consumed in Q2 and even for the Q2 if you look at the changes in the Blue IP and FG, we have reduced the number of days in terms of the pieces which we used to carry there. So, even there I would say that that is basically impacting my bottom line right now because we are now trying to rationalize our inventory and the decline in my closing stock is definitely impacting my bottom line here.

Apart from that, as far as the gross margin is concerned, another aspect which comes into play is the increased sales and incentives and discounts passed onto to the distributors. Right now, looking at the current scenario and condition of the market which has been passed on to them, this is also reducing our gross margins initially. Is this is what we are going to continue, definitely this is not we are going to continue. We are going to take it further and going to reduce the margins, improve our cost efficiency and cost of materials consumed are concerned. Till that such time and in the transition of doing such things, you might see a certain small impact on our bottom line. But, as you have asked, I will just hand it over to Mr. Gupta and he will be explaining much better.



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**Vinod Kumar Gupta:** If you look at the results of Q2 of course the results are not much encouraging, the top line if you see that is quite stagnant, but in bottom line there is a hit because of high cost of raw materials which went into production in Q2, the prices of cotton and cotton yarn, they were sliding more after June. Whatever we had purchased in Q1, those were at the high rates but then those went into production in Q2 and in Q2, the prices again went into reverse mode, so of course there is a problem in terms of bottom line in Q2, but there is good to happen in Q3 because in Q3 you will find that the raw material which we are using at the moment, those at the bottom end prices and something should happen in Q3 and we will be able to recover a lot in Q3 results.

**Andrea Purushotam:** How about the top line Sir, the top line is also very flat?

**Vinod Kumar Gupta:** The top line is flat because of the sluggish rural demand. Unless and until we have been able to put into this Vector Consultants into use in a full fledged manner, we have not been able to increase the number of POS. We are struggling hard to increase the number of POS and that is the way forward where we can really see a good change in the top line figures. We are also into a mode of increasing our total number of products into the market. In the last two quarters, we have come out with athleisure. We have added around 80 odd products in athleisure and athleisure we are really doing well in Q2, we are 2% of the total sales is consisting of athleisure. Athleisure we are pushing into the market, the results are very good and something good is going to happen in next quarter and thereon.

**Sangeeta Purushotam:** Sir, I also wanted to ask you what is happening on your working capital because this is an area where you all have been trying to address for quite sometime, but we are not seeing any results, and even in the presentation when I see, your inventory days are up, your debtors days are up and there was a problem of your debtors days are 126 from 110, is there any hope in the horizon and what are you really doing here to realize your sales proceeds from the sales that you are doing.

**Vinod Kumar Gupta:** This is quite right Sangeeta that we are still not been up to the mark in terms of debtors days. Of course the channel is not coming up to that level which we want. Because of liquidity problem in the market, of course this is really alarming. We have been working with State Bank of India for appointing them as our channel partner so that they can come up with finance to our total debtors, that is not picking up. There are some bottlenecks which we are facing at the moment. We are trying our level best to put our debtors on this channel of financing system with State Bank of India, we have come up with a very good rate with State Bank of India, but then still that is not been able to work in the way we wanted. We are still struggling. Unless and until some 20% to 25% are on board with State Bank of India, that first 25% if they come up in say next one month's time, then something



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good is bound to happen. To start with, they are finding themselves reluctant in coming up wholeheartedly to support us in terms of debtors payment.

**Sangeeta Purushotam:** So what is the solution, because you have so much capital which is blocked up in debtor days and at some point how do you know that this is not going to translate into bad debts or you know you will not have to write off, are you cutting back on the distributors who are not giving you payment on time, because this has been just going on and in every quarter and we are hearing the same thing. This thing about channel financing was something which was discussed in the last quarter's call also and in fact I had raised the issue that if you are taking channel financing, then there is a cost to the financing, so how are you going to persuade your dealers to pay interest cost to a bank and pay you on time? There was some talk about that you may be giving them some discount, but you have at this time given discounts to your dealers, but you have still not been able to collect your debtors?

**Vinod Kumar Gupta:** Yes, that is quite right. We offered them some discounts from our side so that they can easily make up the interest cost which they are able to give to the State Bank of India; still we are fighting it out because it is only a kick start that is taking sometime. We are already in touch with 20 to 25 distributors from eastern India to come up on board and enjoy the benefits of channel financing and then this mouth publicity will really do wonder for us. It is only this starting hiccup which is taking some more time, number one.

**Sangeeta Purushotam:** Sir what benefit do the distributors see in taking this channel financing because currently you are giving them enough credit, you are giving them enough material to sell, so what is the incentive for them to shift to this channel financing?

**Vinod Kumar Gupta:** There is a general phenomenon that once a particular person pays in time ultimately the demand increases in terms of their requirement of their material. So the moment the payment is passed, you will also see a jump in terms of sales as well because as and when some debtors are not paying you in time, so ultimately they also hold back the orders. Even if they have the requirement, they have to sell it to the market, but then they hold on the order because they are not paying in time, so we are also in the process of changing distributors at certain levels wherever we are finding them, they are really doing bad in terms of payment, so we are also in the process of replacing them with the new distributors so that we can new set of terms with the new distributors so that we get the payment on time.

**Sangeeta Purushotam:** Okay, by when do you think we will actually start to see some improvement in the working capital?



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**Vinod Kumar Gupta:** The entire team is working very hard, we have been promising of course, every quarter we have been having earnings calls and we receive these kind of questions from the investor side and till now we have not been able to prove ourselves, but we have been trying very hard. May be by the end of this fiscal year something good to happen.

**Sangeeta Purushotam:** Thank you.

**Moderator:** Thank you. The next question is from the line of Hemanshu Nayyar from Systematix Shares. Please go ahead.

**Hemanshu Nayyar:** First, just to understand this quarter's numbers a bit better, can you breakup the revenues in terms of volumes and pricing, just wanted to understand whether we have taken any price actions in the current quarter?

**Sashi Agarwal:** The breakup is like we have sold 3,54,00,000 pieces of rugs and the ASP for me stands at Rs.61 for this particular quarter. Overall if I look at the six months result, the ASP would stand at about Rs.59 with 7,37,00,000 pieces.

**Hemanshu Nayyar:** So what was the same number last quarter, if you have it?

**Sashi Agarwal:** In Q1 ASP was Rs.57 with 3,72,00,000 pieces.

**Hemanshu Nayyar:** So basically ASP for us has moved up while volumes have come down for this quarter?

**Sashi Agarwal:** Q2 was not a very great quarter to be. In our entire cycle if you remember, the best quarter has been Q4 and then Q3 and then Q1 and Q2 because of varied season. Any which way, Q2 is always a little sluggish and looking at the current market condition, economic scenario, they have not helped us much either.

**Hemanshu Nayyar:** No, I was asking last year, same quarter, what was the number?

**Sashi Agarwal:** Last year, same quarter, definitely we have come down. Year on year basis, we have sold 4,12,00,000 pieces with an Rs.58 in terms of ASP.

**Hemanshu Nayyar:** Okay and broadly wanted to understand in the last few months, have we done any price changes?

**Sashi Agarwal:** Price changes, yes corrections have been made with the decreasing prices of cotton, so those changes do definitely come in, but to be honest, those are at times being compensated by increasing or decreasing our other sales incentive measures which we pass on to the distributors and the retailers. So we are very kind of definitely there was decreases in prices



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with more incentives going to the distributors and for now for thermals, we have just come up with a particular scheme where the ultimate consumer will get benefit in terms of certain CBs with certain buying of your thermal pieces like socks that is two pieces of thermals, that kind of scheme we are running. So this would definitely keep changing from quarter to quarter and the impact of the cotton prices increase and decrease would also help us with the prices.

**Hemanshu Nayyar:** Second question on the gross margins where we have seen a sharp hit and you gave out the reason, so just wanted to understand whether the high cost RM, what would be the proportion of those two factors in terms of usage of high cost cotton inventory and higher promotions or discounts being given to distributors because we have seen a very sharp 500 basis points decline, so can you quantify broadly how much would be on account of what reason?

**Sashi Agarwal:** Hemanshu if you really need to break it up, if I take my job in charges in my gross margin as well, which come below the line in P&L, we have a decrease there at 2% as well. Combined together, it is a 3% decline there, but I will come to them one by one. With the raw materials, as on March 31, 2019, the cotton prices were hovering around Rs.240, which is currently Rs.230 which in between when we close in June it was around Rs.255. This is the kind of increase that is happening in the cotton prices. Yarn prices were standing into our inventory; we consumed that in Q2, hence that is the reason for us having increased raw material consumption. Inventory as such, we are trying to rationalize our inventory and we have reduced our working progress a lot. So, as on March 31, 2019, it was somewhere around 1.5 Crores of pieces sitting at our hands which has reduced to 78 Crores, so that is another 20 Crores hit for me in terms of my closing stock is concerned. Additional discounts we had to pass out because of the decrease in prices are on a percent where we have given additional benefit for the distributors. So overall that combined put me together in 55% number and whereas we have controlled our prices in terms of the jobbing is concerned because a lot of thermal products, we do not pay for them the jobbing charges, what we do is we put them as FOB value. So those thermals which were not there, that have helped me decrease my jobbing charges at 2%, so I get a benefit there. So combined together, it is a 3% which comes under gross margin part.

**Hemanshu Nayyar:** Understood. The next one was on our outlook for the second half given the current demand environment and based on what is the channel inventory with our distributors for thermal wear, given that is an important product for Q3, so what is our outlook that we can give for growth for the second half of the year this time?

**Sashi Agarwal:** With these kind of numbers right now it is very difficult to comment on the outlook, but yes, for one part of your question what is the inventory sitting at the channel partner for





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thermals, so last time as we told the channel it was night winters, the thermal stock got completely sold out, so we are definitely looking at a better third quarter in terms of thermals are concerned, we are optimistic about it and we are working out towards that particular style as well. The dispatches have started, we have seen orders coming in and the dispatches have started to the distributors and distributors in turn have started filling up the retailers and the retail counter is also from the understand that we have a direct retail touch through our news distribution channel, we understand that they have kind of emptied at their level, so we are hopeful as far as the third quarter is concerned. Fourth quarter, as usual, generally most of the sales of our industry happens in the fourth quarter, we are also looking up towards it, so we definitely want to close the guidelines somewhere in about double digit, may be lower double digit or somewhere in and around that.

**Hemanshu Nayyar:**

Final question if you can throw some light on the progress that we have made on the Pepe JV and what is the status of Force NXT given we were looking to do a lot of re-work on that, just these two areas?

**Sashi Agarwal:**

Starting with Pepe JV, we are doing great there. If you can see into my slides as well that we have around 0.5% of sale going to Pepe, we would say that we are 0.5% for Pepe which has gone to them and we are just not the only supplier to them, they are taking from other vendors as well. So that is quite some numbers there. When I say that, that means we have already started with southern part of the country, we are in the northern part of the country, east and west, we are about to get into line, with around 50 distributors we have touched upon. We have achieved a sale of approximately 9 Crores for Pepe. The bottom line is we have already broken even there, so kind of not much of losses which I would say around Rs.22 lakhs is what we are having negative. So more less that is nothing as compared to what we were targeting. That is doing very well. The response is good. We are there in central and we are tying up with all the Pepe EBOs, more or less we are present with more than 120 EBOs currently for the Pepe, looking up to see other channel partners that is stalls, we are also looking at online which is the Pepe stores and other fashion selling platform which is there. So the response is pretty good. People like the product. The acceptance is there. So we are pretty happy with that. Pepe we are really very happy with the current situation. It should do well gradually.

Moving on to Force NXT, Force NXT we have introduced an athleisure segment which is doing good. Big Boss athleisure and Force NXT athleisure which we had introduce this January forms a 2% of my total sales, they have been included in their respective brands. Around 0.8% to 0.9% what they come into each segment. The response is good for the Big Boss athleisure and Force NXT athleisure also. So this athleisure segment is not only going to increase our ASP but it also going increase our product portfolio range and if helps the



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retailers to connect when you are having some outer garments as well and it is really doing well. It is getting widely accepted by them as well.

As far as the Force NXT is concerned, again a lot of strategy is being put across. A separate NSM has been hired and he has been looking into it aggressively for the entire rollout of Force NXT pan India basis. That is something very aggressive. May be another two quarters we should feel the presence of Force NXT across India. That is what our target is right now.

**Hemanshu Nayyar:**

Thanks and all the best.

**Moderator:**

Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

**Ashi Anand:**

Just wanted your assessment in terms of the liquidity pressures of our channel partners, has there been any kind of improvement that we have seen over the last few months, or how tight is that and how do you really see this getting resolved?

**Sashi Agarwal:**

That is a tough one Mr. Anand. The changes have not really happened much at the channel partner level. When we talked to them, it is still the same position and condition, some thing or the other are linked up to it. I can understand when we talk about demonetization, when we talk about GST, we talk about NBFC fiasco etc., that is coming up, but that is the fact and the ground reality as well that these all things lined up one after another has actually led us to this particular liquidity crunch. People are scared in terms of how to manage their funds. As far as we are trying to tell them that we have to change, we have been working a particular style and format for years, but now with the changes in the system and the economic scenario the reforms, which have been coming we have to adapt to the new clear system. Definitely they will realize and they are realizing they are not but they are still reluctant, but when they are pushed to a corner and pushed to a wall, where they will not be able to do business itself, they will have to adapt to the new systems and change their methodology. Most of them are doing and we are changing our model, distribution model that is when we are connecting to the retailers and just asking distributors to curb them, they do not control the market anymore like they used to do previously so they will have to fall in line. That is one of the things which we are banking on heavily, this new distribution model and the channels which we are building in for our systems it will help us rationalize the debtor days, it will help us rationalize the inventory, both at the distributor and the retail level. So, once this happens, the debtor days will start falling definitely and rationalization of inventory will also as a result fall in line.



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**Anand Mundra:** Secondly, we have seen quite a sharp increase in both the distributors and retail network over the last five to six years. I was just trying to understand given the kind of challenges that we are seeing, are we looking at say rationalizing some of this or getting out of certain weaker distributors or MBOs, thoughts around that?

**Sashi Agarwal:** I just missed you, Mr. Anand on the first part. You were saying that we have decreased our MBOs or distributors?

**Anand Mundra:** No, we significantly increased our distributors and MBOs over the last five to six years. Are there any challenges right now? Are we looking at any rationalization?

**Sashi Agarwal:** I would say with the new distribution model which we are trying to implement we will definitely look at rationalization of our distributors and retailers rationalization I would not see rationalization, rather increase them. So, currently we are about 1 lakh retail counters which we are present, 95000 plus some number here and there. I will say a lakh of retail counters so, is that the universe for the hosiery industry? I really do not think so. Is there a possibility for us to be present at possible nook and corner or the centers where the briefs or the innerwears are sold, can we do that? We are trying to do that. That is what we are doing currently. We are trying and going and mapping each and every retail shop present on the road. Our team is down there mapping, putting the data on to the system and we approach them, we tell, we talk about epigram, how they can partner with us and what benefits do they derive when they are partnering directly with the company rather than just going ahead through the distributors, so this is something what we want to increase and over the next two years, we want to have a further increase exponential increase in terms of the number of retail counters are concerned and distribution in the channel in the process will have to be proved or increase as the case maybe. In some areas we might have to rationalize them and in some areas we might have to appoint few ones because we would have certain conditions right now. We look for proximity of servicing the areas as far as the distribution is concerned. We cannot be sitting at one of the major centre of the state and then service the villages of that particular state, not possible, because we will not be able to serve them. So, we have to appoint distributors who are much nearer, closer to that particular village or a tehsil. So that is something which we are working on currently. So yes these changes would happen, but where the numbers would stand right now, too early to comment, but we have certain estimates as to the number of retailers are concerned and number of distributors we would require in the next two years.

**Anand Mundra:** Okay and just last question, as we are rolling out the TUC model, should we expect some kind of a near term adverse impact on sales as we will be rolling the model out over the next couple of years?



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**Sashi Agarwal:** We are trying to minimize that impact, so I do understand where it really comes from because once we are having a lot of inventory clogged up into the distributor and the retailers that particular product will not be sold to them or we would hold back the sales to such time they are having reasonable level of inventory. But what we are doing currently is that we understand though we are present pan India but there are certain areas we still have a potential to be present in a much wider term. So, what we are doing currently is we are looking at those areas where our presence is there but maybe the percentage is not as good as it should be. So, we will marry these two that is being present in the lower penetrated area as well as rationalizing the level of inventories for the products which is already at a high level with the distributors. So, hopefully this should be compensated and you will not see much of an impact there.

**Anand Mundra:** Excellent. Wish you all the best. Thanks a lot for the answers.

**Moderator:** Thank you. The next question is from the line of Nehal Jham from Edelweiss. Please go ahead.

**Nehal Jham:** Thank you so much Sir. Good evening to the entire management. Madam, my first question was again on the raw material cost, sorry for bringing it up again because if I just check our raw material cost excluding the subcontracting charges and even when I look at the movement in yarn prices over the last two three quarters as you have mentioned, they have at max moved in a 4% to 5% range, so does that explain the 8% kind of gross margin reduction we have seen over Q1? That is the only number I am trying to reconcile right now?

**Sashi Agarwal:** 8%, what you are talking about?

**Nehal Jham:** I am just looking at gross margins excluding the subcontracting charges, so for the standalone number I see that it has gone down from 58% to 50%, our gross margins?

**Sashi Agarwal:** First of all what happens is Nehal, you know with the quarter coming in like lot of thermal production has happened this particular quarter. So Q2 is heavy in terms of the thermal productions are concerned. So I would suggest that looking at the numbers in terms of previous quarter to current quarter it would not be prudent there because thermal production when we get into the thermal production, the cost of the production is always very high. Raw material which we use here currently is more kind of blended if you have specific kind of the raw material is being used here and more so ever we buy the entire thing as an FOB. Though we have a setup there in Ludhiana but then again there are certain products which come as an FOB, which does not go into my jobbing charges, so that adds up in my gross margin as well.



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**Nehal Jham:** But if I compare that to the last year, I mean there is still around an 8% to 10% fall, and yarn prices or cotton prices are actually reduced compared to the last year, so still is that there has been a bit of a mix change, I do not think we have cut prices, because we gave the number for realization, so any thing else other than these two factors, which could explain the fall in margins?

**Sashi Agarwal:** So, the closing stock, if you look at the changes in inventory, which we talked about, the change that we have rationalized our inventories and WIP what stood as 1.5 Crores pieces sitting at the makers is now 78 lakh pieces there. So, definitely that comes as a closing stock at a lower value gives me an impact there. Number one. Number two, definitely we have also talked about additional discounts being passed on as compared to the last quarter that is June quarter, so a percent which has also given a percent of additional schemes and discounts also contributed to this fall in my gross margin is concerned.

**Nehal Jham:** Okay, the discounts is netted off from the realization or how do we factor that into our P&L?

**Sashi Agarwal:** Since you remember, may be two years back there was a 9% discounts and schemes coming into my bottomline, which if you really look now is just maybe 3% so that 5% goes on the topline. It gets deducted from the topline now.

**Nehal Jham:** Fair enough. I will probably take this offline. Madam, the second question was obviously we have discussed about that now there is an issue with channel financing, but at the end retailer level, are sales still happening at the decent level or even there the growth is muted. Just wanted to know that at the end retailer level are the sales happening?

**Sashi Agarwal:** Very obvious thing is we have the very retailers because since we are working with the TUC model, the entire project and I am seeing the response from the retail right now is not that very, very encouraging. They are also because once the shops at that level is empty it definitely would demand for more material. Forget if they do not want it from Dollar they would look for Bluff, they would look for Rupa, they would look for Jockey, any other brands or the local brands which is there, but if you really go and talk to anybody and everybody it is not the same case. It is not really happening. Everybody is fighting like if you go and see that we have some schemes and discounts, our competitors would have some discounts, Jockey today when we are just sitting and they are offering discounts their debtors are going up, so it is basically offtake at retail not happening at all. It is coming down. What is the reason behind it? It is again deferment of purchases, yes because this is a necessity. It is just maybe a phase we are passing through; because this is one of the industries we cannot have much bad weather conditions for long time. It is a basic necessity and you have to come out of it. People will ask for it.



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**Nehal Jham:** Just a last question on this is it right to say that the issue with the channel liquidity started with the implementation of GST would that be to say that that was the beginning of the issue?

**Sashi Agarwal:** I would take a step back. That is being if you remember, the entire cash was sucked from the entire system, the entire economy for that matter.

**Nehal Jham:** Absolutely, but it is three years since demonetization and even a year and a half two years since GST has been implemented. So, is it now that the channel has already adjusted because I think a year back you were saying that they are looking at consolidating the entities and getting in line with the system? So, is it still that the channel liquidity is not improved?

**Sashi Agarwal:** Definitely I completely understand where you are coming from because the story cannot go in forever, because if you really look at the facts, by the time, you came out with a demonetization and functioning in a normal way, you had GST which said that you could function in a particular way, the indirect taxation was something very new to these channel partners. They understood the language of indirect taxation. They have to cope up with. As you said that we had discussed about different entities being there within themselves and merging them into one but getting the working capital requirement in their books of accounts has been a challenge for them. Once we try and adjust it to that trying to cope up look for finances, etc., we have these fiascos of NBFCs going up and stuff like that. We are actually afraid to get into their cash which is sitting with them into the proper channels. Number one. Number two; they are too afraid move with the banks right now. Channel financing not working again, their skepticism towards getting loans from the bank. They are utmost skeptical there. So, they are just holding the entire funds or once their funds are already stuck up some there they are not able to realize that funds into their hands. So, the entire thing is clogging it up. These events happening one after the other it is not that it is continuing, but you are not getting time to get over that event and come into the normalcy phase. By the time you are reaching that there are some other event happening which is actually pushing you back again. So that is the reason we are trying to work this out, but they have to be pushed to the wall, they are being pushed to the wall that they have to accept these changes in the system and adapt accordingly and they understand that yes financing or going to banks for borrowing is not such a bad thing, it is actually a healthy thing to leverage their balance sheet as well.

**Nehal Jham:** Based on this current commentary, I do not think anytime this emerges this situation can turn itself around?



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- Sashi Agarwal:** If I tell you will see that you will see a turnaround in December, I will be lying. As Mr. Gupta already mentioned we are working hard to get some turnaround by this fiscal end.
- Nehal Jham:** That is very helpful. I will get back in the queue, Sashi. Thanks so much.
- Moderator:** Thank you. The next question is from the line of Prerna Jhunjhunwala from Kotak Mutual Fund. Please go ahead.
- Prerna Jhunjhunwala:** Thank you for the opportunity. Just wanted to understand the demand scenario with respect to various segments, economy, premium, and luxury, how is the demand there, because Pepe as you said that their performance is decent as compared to Force NXT where we are struggling. So, at the broad industry level, how would you segregate the demand largely?
- Sashi Agarwal:** Here I would say that the rural demand is definitely low because even if I look at my revenue breakup which I have in front of me right now, I see a 45% of Big Boss, I see a 34% of Regular, which maybe two years back was round about 36% to 37% we had that together. Big Boss being at 42% so definitely I can say that these numbers are somewhere people are looking towards in hiring products, I would not say that there is a big crisis, but yes rural is an area where your demands are actually a little sluggish. The economic levels if I have to compare urban versus rural, rural and definitely India being most of the demands coming from the rural area they are getting impacted. So, my understanding is yes, the numbers what they speak themselves is that rural demand is a little lower.
- Prerna Jhunjhunwala:** In terms of this, you earlier mentioned that Jockey is also offering discounts so how is the competition now be in terms of capturing more market share or reducing the impact of this rural consumption decline?
- Sashi Agarwal:** Here there is no discounts; Jockey is offering them the credit period which he never did previously. The Jockey was a cash and carry model which has not converted into credit model as well. We are offering the credit period to the dealers.
- Prerna Jhunjhunwala:** But then each and every brand would be offering certain kind of discounts, so how is the competitive intensity in the market and where do you see the market shares actually panning out, in the last six months?
- Sashi Agarwal:** There would not be much of a change. We all stand somewhere near where we were all there. Has there been a very big change or shift happen from one particular company to the other taking their share, not really.



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- Prerna Jhunhunwala:** Madam, just to clarify on this topline thing, I understood that volume for this quarter was around 3.54 Crores pieces and last year was 4.12 Crores pieces, correct, in the same quarter?
- Sashi Agarwal:** Just a minute, get me that document. Prerna, if you could repeat the question?
- Prerna Jhunhunwala:** This means that there is a 15% decline in volume, but our topline is actually flat, so where is the disconnect is what I was trying to understand?
- Sashi Agarwal:** The prices have increased, one, Prerna. Volume has decreased by 12% as far as the last year-on-year quarter is concerned and for the six months ended the volume has gone down by 13.5% whereas my price growth has happened around about which we have got a good number, yes we were at Rs.58 for Q2 whereas this particular quarter it is Rs.61 and for six months ended my ASP was around Rs.56 which is currently at Rs.59. So, the increase in prices has actually given me a flattish topline.
- Prerna Jhunhunwala:** Madam increasing price is only 5% is what I understand. So just wanted to know whether this volume includes your Athleisure volumes as well.
- Sashi Agarwal:** Yes, absolutely. If I really look at my total revenue it also comprises on certain of the yarn sales, other incomes, which is there we sell yarn, we also manufacture yarn products and supply and we have such kind of a capacities, so those other incomes are also there, which is forming a part of my total revenue.
- Prerna Jhunhunwala:** Where you have seen a decline, increase, or maybe? Understood. With respect to your advertisement expenditures Madam, could you help me on where they are today?
- Sashi Agarwal:** Absolutely, we consolidated and we stand at around 8.9%. For the quarter we had spent 6% of my topline so put together for the half year ended we are at 42.9 Crores, very well within that limit, which we said that we will maintain it to 8% to 9%.
- Prerna Jhunhunwala:** Thank you Madam. Thank you so much.
- Moderator:** Thank you very much. Well that was the last question in the queue. I will now like to hand the conference back to the management team for closing comments.
- Vinod Kumar Gupta:** I would like to thank everyone for joining us on Dollar Industries Limited Q2 Earnings Call. Thank you everyone.





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**Moderator:**

Thank you very much. On behalf of SBICAP Securities that concludes this conference.  
Thank you for joining us. You may now disconnect your lines.