

# **CRISIL IER**

## **Independent Equity Research**

Enhancing investment decisions



## **TTK Prestige Ltd**

Q1FY18 Results Update

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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# TTK Prestige Ltd

September 25, 2017

## Revenue affected by GST implementation

**Fundamental Grade: 5/5 (Superior Fundamentals)**
**Valuation Grade: 3/5 (CMP is aligned)**
**Industry: Household Durables**
**Fair Value: ₹6,054**
**CMP: ₹6,343**

TTK Prestige Ltd's Q1FY18 results were below CRISIL Research's estimates. Standalone revenue (before netting off dealer discounts and excise duty) grew a tepid 4% y-o-y to ₹3,772 mn owing to inventory destocking by dealers in June, prior to the implementation of the Goods and Services Tax (GST). Following muted revenue growth, EBITDA margin contracted 13 bps y-o-y. In Q1FY18, TTK generated a one-time net income of ₹1,290 mn through the sale of its share in the real estate property in Dooravani Nagar, Bengaluru, which boosted PAT. Adjusted for one-time income, PAT increased 3.9% y-o-y to ₹276 mn. According to management, barring June, demand has been improving since Q4FY17. In July also, TTK witnessed volume growth across product categories, as the company and dealers started adjusting to the GST system. Going forward, TTK is likely to benefit from: (1) the launch of its new brand, Judge, mainly addressing the rural market; and (2) introduction of new products (new categories and variants of existing products). We maintain our fundamental grade of 5/5.

### Muted growth across segments; focus continues on new launches

After growing a robust 23% y-o-y in Q4FY17, domestic sales growth moderated in Q1FY18. Growth across product categories remained muted - cooker and appliances posted 7% and 5% y-o-y growth, respectively, but cookware declined 5.2% y-o-y. According to management, while the sales momentum was strong in April and May (posting a cumulative 12.5% growth) GST-led disruption dragged down sales in June (down 11.2% y-o-y). The company continues to focus on new launches across categories. It plans to launch new-age technology-cleaning solutions and also aims to introduce 80+ SKUs this year. The company's UK subsidiary, Horwood, reported a ~23% y-o-y decline in gross revenue to ₹275 mn owing to tepid demand and pound depreciation versus the rupee. Ramping up Horwood's business is a monitorable.

### Launch of a new brand - Judge

In August, TTK launched Horwood's Judge brand in India. Aimed at the price-conscious tier-3, tier-4, tier-5 and rural markets, the brand will offer a range of kitchen appliances - cookers, cookware, gas stove and mixers - at affordable prices. With this brand, the company expects to garner share from the unorganised segment (estimated at ₹50 bn), expanding its revenue base. Considering management's track record in successfully scaling up the TTK brand, we view this as a step in the right direction and expect it to boost revenue.

### EBITDA margin contracted despite high contribution margin

In Q1FY18, contribution margin expanded 72 bps y-o-y to 45.1% owing to higher contribution from value-added products. However, EBITDA margin contracted 13 bps y-o-y to 11.9%, as lower revenue growth was not sufficient to absorb the increase in fixed costs. We expect consolidated EBITDA margin to expand from Q1 level, driven by operating leverage from higher revenue growth. Accordingly, we expect TTK to register consolidated margin of 12.8% in FY18.

### We maintain our fair value estimate

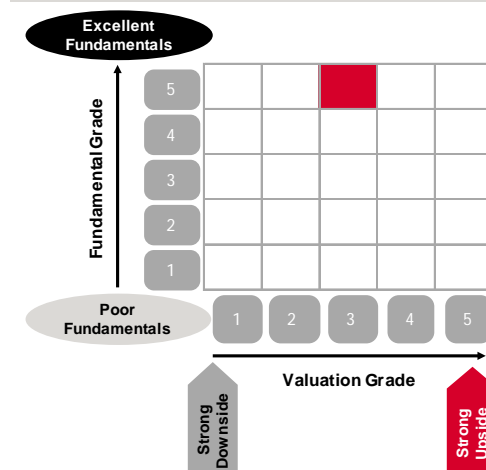
We introduce consolidated financials, including Horwood's, in this quarter. Accordingly, we revise our estimates for FY18-19. However, we maintain our discounted cash flow (DCF)-based fair value is ₹6,054. At the current market price of ₹6,343, our valuation grade is 3/5.

## KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	13,900	15,615	18,402	20,951	24,402
EBITDA	1,544	1,903	2,215	2,685	3,194
Adj net income	902	1,184	1,507	1,708	2,037
Adj EPS (₹)	77.4	101.6	129.3	147.7	176.2
EPS growth (%)	(13.7)	31.3	27.2	14.3	19.3
Dividend yield (%)	0.4	0.9	-	1.4	1.4
RoCE (%)	21.5	24.7	23.2	24.8	28.9
RoE (%)	14.6	17.3	19.1	18.8	20.3
PE (x)	80.9	61.6	48.4	42.4	35.5
P/BV (x)	11.3	10.1	8.6	7.5	6.9
EV/EBITDA (x)	47.1	37.8	32.8	26.5	22.2

NM: Not meaningful; CMP: Current market price

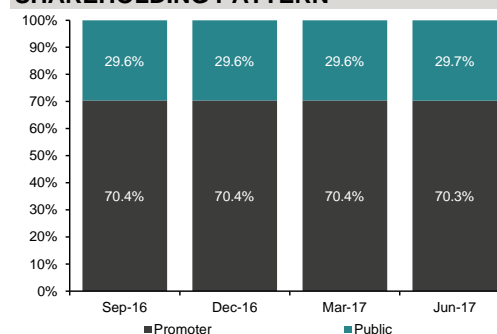
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	9872/31626
NSE/BSE ticker	TTKPRESTIG
Face value (₹ per share)	10
Shares outstanding (mn)	11.6
Market cap (₹ mn)/(US\$ mn)	48,742/753
Enterprise value (₹ mn)/(US\$ mn)	48,324/747
52-week range (₹)/(H/L)	6,984/4,721
Beta	0.7
Free float (%)	29.6%
Avg daily volumes (30-days)	4,991
Avg daily value (30-days) (₹ mn)	31

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
TTK	0%	-5%	8%	31%
Nifty 500	5%	5%	13%	17%

# Research

## Q1FY18 Results Summary (standalone)

(₹ mn)	Q1FY18	Q4FY17	Q1FY17	q-o-q (%)	y-o-y (%)
<b>Operating income</b>	<b>3,772</b>	<b>3,827</b>	<b>3,628</b>	<b>(1.4)</b>	<b>4.0</b>
Raw materials cost (including excise duty)	2,072	2,145	2,020	(3.4)	2.6
Raw materials cost (% of net sales)	54.9%	56.0%	55.7%	-110bps	-72bps
Employees cost	312	321	288	(2.7)	8.3
Other expenses	941	901	886	4.4	6.2
<b>EBITDA</b>	<b>447</b>	<b>461</b>	<b>435</b>	<b>(2.9)</b>	<b>2.8</b>
<b>EBITDA margin</b>	<b>11.9%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>-18bps</b>	<b>-13bps</b>
Depreciation	62	91	53	(31.5)	16.5
<b>EBIT</b>	<b>385</b>	<b>370</b>	<b>382</b>	<b>4.1</b>	<b>0.9</b>
Interest and finance charges	5	10	19	(55.9)	(75.9)
<b>Operating PBT</b>	<b>381</b>	<b>360</b>	<b>363</b>	<b>5.8</b>	<b>4.8</b>
Other Income	20	16	18	24.4	11.8
Extraordinary Income/(expense)	1,290	42	(24)	-	-
<b>PBT</b>	<b>1,690</b>	<b>417</b>	<b>357</b>	<b>305.0</b>	<b>373.5</b>
Tax	347	(120)	115	(390.4)	202.3
<b>PAT</b>	<b>1,343</b>	<b>537</b>	<b>242</b>	<b>150.1</b>	<b>454.8</b>
<b>Adj PAT *</b>	<b>276</b>	<b>495</b>	<b>266</b>	<b>(44.2)</b>	<b>3.9</b>
<b>Adj PAT margin</b>	<b>7.3%</b>	<b>12.9%</b>	<b>7.3%</b>	<b>-562bps</b>	<b>0bps</b>
No of equity shares (mn)	11.5	11.7	11.7	(1.1)	(1.1)
<b>Adj EPS (₹)</b>	<b>23.7</b>	<b>42.5</b>	<b>22.8</b>	<b>(44.2)</b>	<b>3.9</b>

Note: We have classified discounts as other expenses; \* We have calculated adjusted PAT by assuming effective tax rate of 31% applicable on PBT from core operations (excluding gain from the sale of the real estate assets)

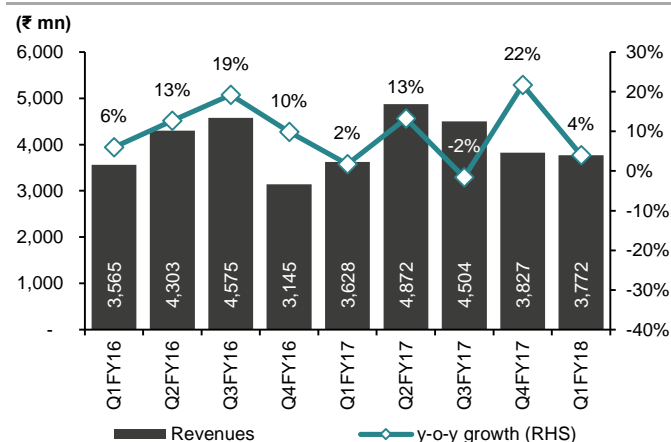
Source: Company, CRISIL Research

## Q1FY18: Product category-wise revenue break-up

(₹ mn)	Q1FY18	Q4FY17	Q1FY17	q-o-q (%)	y-o-y (%)
Cookers	1,370	1,410	1,280	(2.8)	7.0
Cookware	550	650	580	(15.4)	(5.2)
Appliances	1,710	1,620	1,630	5.6	4.9
Others	140	150	140	(6.7)	-
Horwood Appliances	275	363	356	(24.1)	(22.7)
<b>Consolidated revenue</b>	<b>4,047</b>	<b>4,189</b>	<b>3,984</b>	<b>(3.4)</b>	<b>1.6</b>

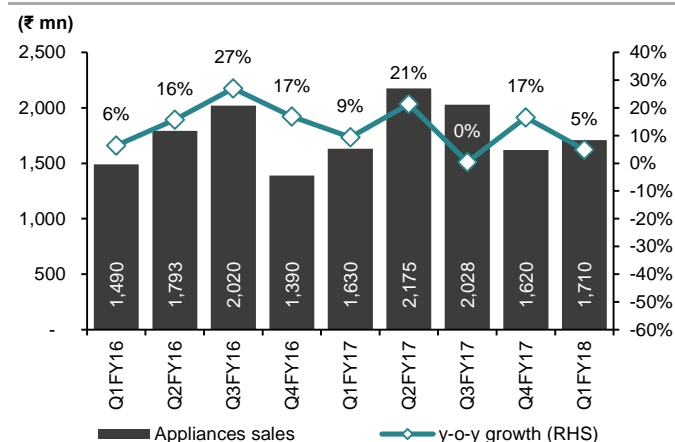
Source: Company, CRISIL Research

## Revenue growth was 4% y-o-y



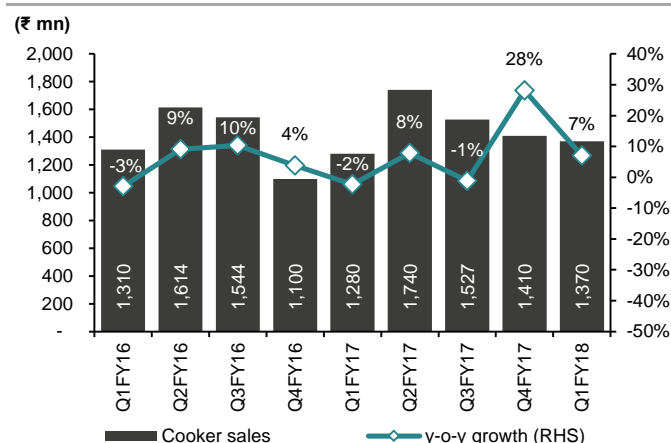
Source: Company, CRISIL Research

## Appliances segment grew 5% y-o-y



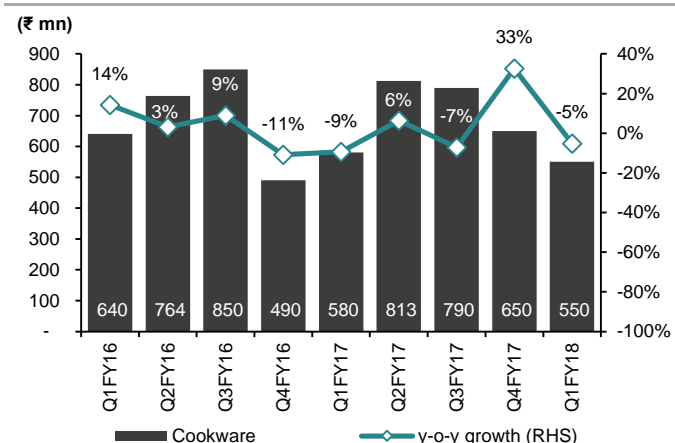
Source: Company, CRISIL Research

## Cookers sales increased 7% y-o-y



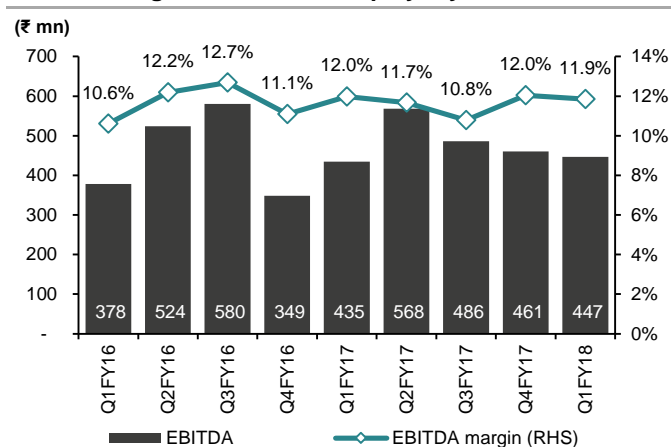
Source: Company, CRISIL Research

## Cookware segment declined 5% y-o-y



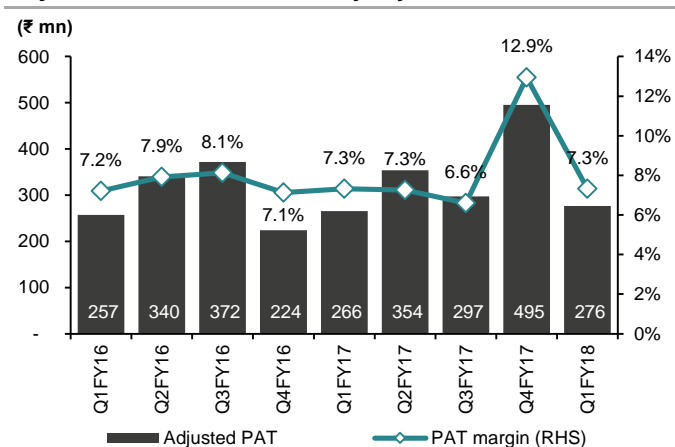
Source: Company, CRISIL Research

## EBITDA margin contracted 13 bps y-o-y



Source: Company, CRISIL Research

## Adjusted PAT increased 3.9% y-o-y



Source: Company, CRISIL Research

## Estimates revised for FY18-19E

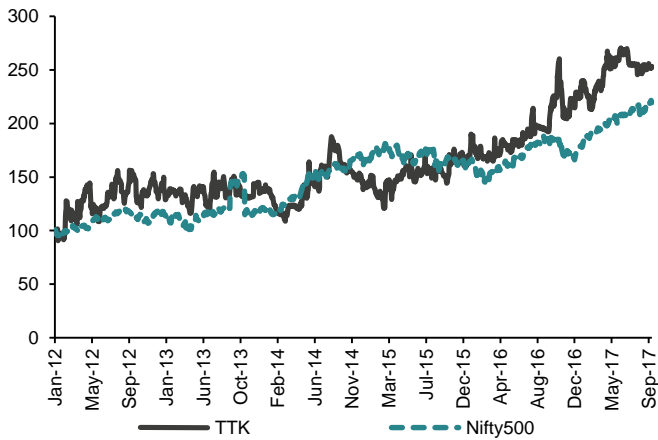
Particulars	Unit	FY18E			FY19E		
		Old	New	% change	Old	New	% change
Operating income	(₹ mn)	19,256	20,951	9%	22,969	24,402	6%
EBITDA	(₹ mn)	2,526	2,685	6%	3,075	3,194	4%
EBITDA margin	%	13.1%	12.8%	-30bps	13.4%	13.1%	-30bps
PAT	(₹ mn)	1,625	1,708	5%	1,986	2,037	3%
PAT margin	%	8.4%	8.2%	-29bps	8.6%	8.3%	-30bps
EPS	₹	140.7	147.7	5%	172	176.2	2%

Source: CRISIL Research estimates

## Reasons for changes in estimates

Line item	FY18E and FY19E
Operating income	Introducing consolidated financials
EBITDA margin	Decreased owing to margin pressure on Horwood and the base effect
PAT	Increased in line with EBITDA

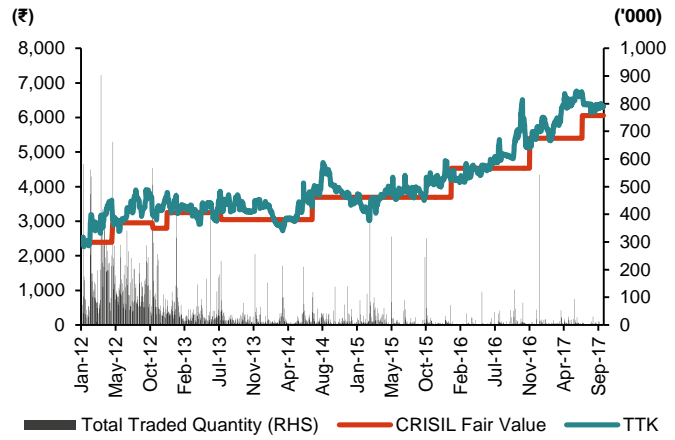
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



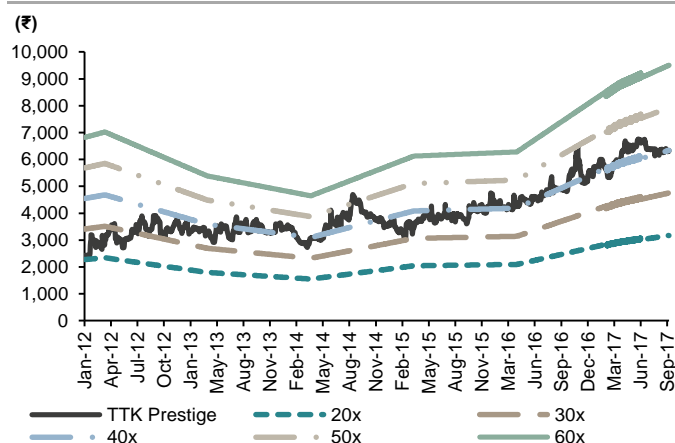
Source: NSE, BSE, CRISIL Research

## Valuation

**Grade: 3/5**

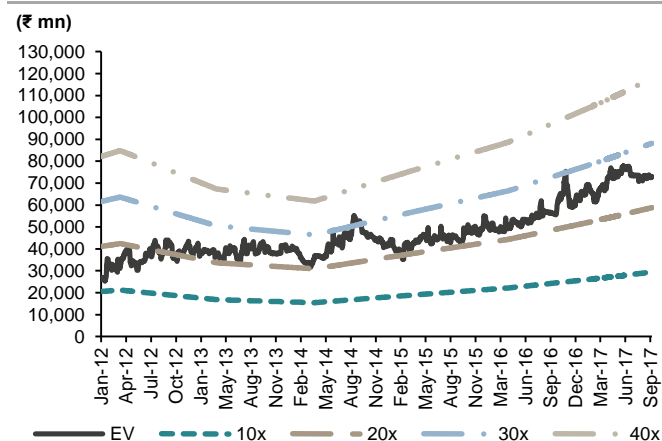
We have introduced consolidated financials, including Horwood's, in this quarter. Accordingly, we revise our estimates for FY18-19. However, we maintain our DCF-based fair value as ₹6,054. The fair value implies P/E multiples of 41.0x and 34.4x on FY18E and FY19E EPS, respectively. The stock trades at ₹6,343, implying P/E multiples of 42.4x and 35.5x on FY18E and FY19E EPS. At the current market price, our valuation grade is 3/5.

### One-year forward P/E band



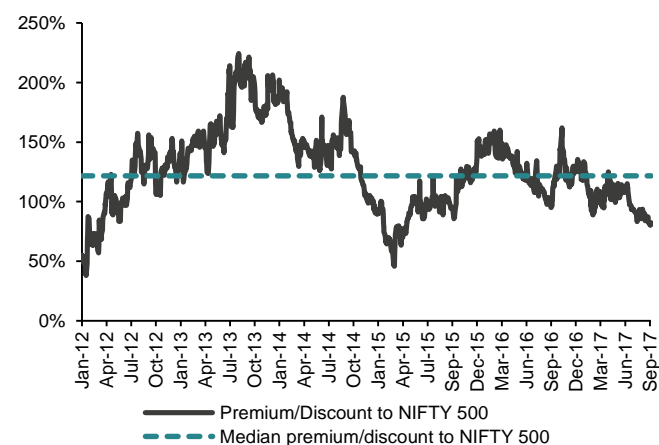
Source: NSE, CRISIL Research

### One-year forward EV/EBITDA band



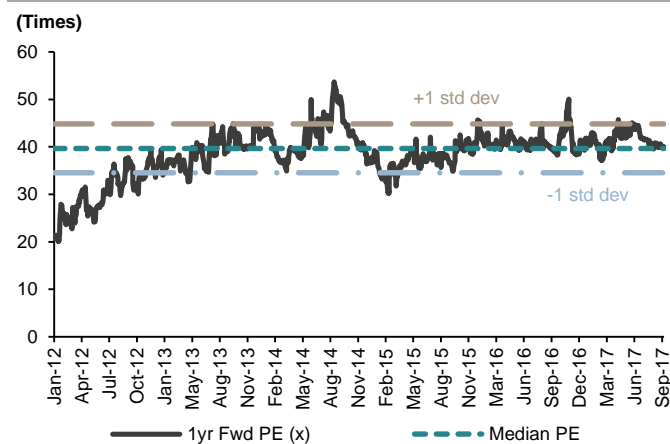
Source: NSE, CRISIL Research

### P/E – premium / discount to Nifty 500



Source: NSE, CRISIL Research

### P/E movement



Source: NSE, CRISIL Research



## CRISIL IER reports released on TTK Prestige Ltd

Date	Nature of report	Fundamental		Fair value	Valuation grade	CMP
		grade				
07-Dec-11	Initiating coverage	5/5		₹2,392	2/5	₹2,787
24-Jan-12	Q3FY12 result update	5/5		₹2,392	3/5	₹2,401
15-May-12	Q4FY12 result update	5/5		₹2,950	3/5	₹3,098
11-July-12	Q1FY13 result update	5/5		₹2,950	2/5	₹3,297
16-Oct-12	Q2FY13 result update	5/5		₹2,800	2/5	₹3,203
12-Dec-12	Detailed report	5/5		₹3,250	2/5	₹3,827
22-Jan-13	Q3FY13 result update	5/5		₹3,250	3/5	₹3,278
23-May-13	Q4FY13 result update	5/5		₹3,250	3/5	₹3,513
22-July-13	Q1FY14 result update	5/5		₹3,050	3/5	₹3,354
28-Oct-13	Q2FY14 result update	5/5		₹3,050	3/5	₹3,262
27-Jan-14	Q3FY14 result Update	5/5		₹3,050	2/5	₹3,398
28-Mar-14	Detailed report	5/5		₹3,050	3/5	₹3,051
05-Jun-14	Q4FY14 result Update	5/5		₹3,050	3/5	₹3,302
31-Jul-14	Q1FY15 result Update	5/5		₹3,690	3/5	₹3,888
17-Oct-14	Q2FY15 result update	5/5		₹3,690	3/5	₹3,857
03-Feb-15	Q3FY15 result update	5/5		₹3,690	4/5	₹3,309
01-Sep-15	Q1FY16 result Update	5/5		₹3,690	3/5	₹3,983
08-Dec-15	Detailed report	5/5		₹3,690	2/5	₹4,135
22-Jan-16	Q3FY16 result update	5/5		₹4,533	3/5	₹4,187
15-Jun-16	Q4FY16 result update	5/5		₹4,533	3/5	₹4,508
29-Aug-16	Q1FY17 result update	5/5		₹4,533	3/5	₹4,899
30-Nov-16	Q2FY17 result update	5/5		₹5,398	3/5	₹5,295
10-Feb-17	Q3FY17 result update	5/5		₹5,398	3/5	₹5,625
28-Jun-17	Q4FY17 result update	5/5		₹6,054	3/5	₹6,636
25-Sep-17	Q1FY18 result update	5/5		₹6,054	3/5	₹6,343

## Annexure: Financials (consolidated)

Income statement						Balance Sheet						
(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	
Operating income	13,900	15,615	18,402	20,951	24,402	Liabilities						
EBITDA	1,544	1,903	2,215	2,685	3,194	Equity share capital	117	117	117	116	116	
EBITDA margin	11.1%	12.2%	12.0%	12.8%	13.1%	Reserves	6,343	7,114	8,420	9,495	10,310	
Depreciation	190	209	257	290	301	Minorities	-	-	-	-	-	
EBIT	1,354	1,694	1,958	2,395	2,893	Net worth	6,460	7,231	8,536	9,610	10,425	
Interest	79	59	111	10	-	Convertible debt	-	-	-	-	-	
Operating PBT	1,274	1,635	1,847	2,385	2,893	Other debt	-	-	1,132	-	-	
Other income	33	60	23	108	80	Total debt	-	-	1,132	-	-	
Exceptional inc/(exp)	13	(37)	-	1,290	-	Deferred tax liability (net)	260	292	354	354	354	
PBT	1,320	1,658	1,869	3,782	2,974	Total liabilities	6,720	7,522	10,022	9,964	10,779	
Tax provision	405	512	363	785	937	Assets						
Minority interest	-	-	-	-	-	Net fixed assets	3,354	3,286	3,702	3,600	3,446	
PAT (Reported)	915	1,146	1,507	2,997	2,037	Capital WIP	277	64	44	-	-	
Less: Exceptionals	13	(37)	-	1,290	-	Total fixed assets	3,631	3,349	3,746	3,600	3,446	
Adjusted PAT	902	1,184	1,507	1,708	2,037	Investments	188	1	1	1	1	
Ratios						Current assets						
	FY15	FY16	FY17	FY18E	FY19E	Inventory	2,747	3,247	3,799	4,305	5,014	
Growth						Sundry debtors	1,593	1,753	2,153	2,583	3,009	
Operating income (%)	7.3	12.3	17.9	13.9	16.5	Loans and advances	458	612	417	314	366	
EBITDA (%)	(8.1)	23.3	16.4	21.2	19.0	Cash & bank balance	295	550	788	399	688	
Adj PAT (%)	(13.7)	31.3	27.3	13.3	19.3	Marketable securities	35	443	748	750	750	
Adj EPS (%)	(13.7)	31.3	27.2	14.3	19.3	Total current assets	5,129	6,604	7,905	8,351	9,826	
Profitability						Total current liabilities	2,239	2,446	2,787	3,145	3,652	
EBITDA margin (%)	11.1	12.2	12.0	12.8	13.1	Net current assets	2,889	4,158	5,119	5,206	6,174	
Adj PAT Margin (%)	6.5	7.6	8.2	8.2	8.3	Intangibles/Misc. expenditure	11	14	1,157	1,157	1,157	
RoE (%)	14.6	17.3	19.1	18.8	20.3	Total assets	6,720	7,522	10,022	9,964	10,779	
RoCE (%)	21.5	24.7	23.2	24.8	28.9	Cash flow						
RoIC (%)	17.2	20.6	21.1	20.2	22.4	(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	
Valuations						Pre-tax profit	1,307	1,695	1,870	2,493	2,974	
Price-earnings (x)	80.9	61.6	48.4	42.4	35.5	Total tax paid	(351)	(480)	(300)	(785)	(937)	
Price-book (x)	11.3	10.1	8.6	7.5	6.9	Depreciation	190	209	257	290	301	
EV/EBITDA (x)	47.1	37.8	32.8	26.5	22.2	Working capital changes	(285)	(606)	(417)	(474)	(680)	
EV/Sales (x)	5.3	4.6	4.0	3.4	2.9	Net cash from operations	861	818	1,410	1,523	1,658	
Dividend payout ratio (%)	28.0	59.4	-	34.2	51.3	Cash from investments						
Dividend yield (%)	0.4	0.9	-	1.4	1.4	Capital expenditure	(165)	70	(1,796)	(144)	(147)	
B/S ratios						Investments and others	(132)	(221)	(305)	(2)	-	
Inventory days	72	76	75	75	75	Net cash from investments	(298)	(151)	(2,101)	(147)	(147)	
Creditors days	43	61	60	60	60	Cash from financing						
Debtor days	42	41	43	45	45	Equity raised/(repaid)	-	(0)	0	(1)	-	
Working capital days	63	67	67	67	66	Debt raised/(repaid)	(269)	-	1,132	(1,132)	-	
Gross asset turnover (x)	3.3	4.0	4.7	4.8	5.4	Dividend (incl. tax)	(308)	(687)	-	(1,199)	(1,222)	
Net asset turnover (x)	4.1	4.7	5.3	5.7	6.9	Others (incl extraordinary)	13	274	(202)	566	-	
Sales/operating assets (x)	3.8	4.5	5.2	5.7	6.9	Net cash from financing	(564)	(412)	930	(1,766)	(1,222)	
Current ratio (x)	2.3	2.7	2.8	2.7	2.7	Change in cash position	(1)	254	238	(389)	289	
Debt-equity (x)	-	-	0.1	-	-	Closing cash	295	550	788	399	688	
Debt/EBITDA (x)	-	-	0.5	-	-	Quarterly financials (standalone)						
Net debt/EBITDA (x)	(0.1)	(0.2)	(0.4)	(0.2)	(0.4)	(₹ mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Interest coverage (EBITDA/interest)	24.1	37.6	24.2	319.4	NM	Net Sales	3,145	3,628	4,872	4,504	3,827	3,772
Interest coverage (EBIT/Interest)	17.1	28.8	17.6	239.5	NM	Change (q-o-q)	-31%	15%	34%	-8%	-15%	-1%
Per share						EBITDA	349	435	568	486	461	447
	FY15	FY16	FY17	FY18E	FY19E	Change (q-o-q)	-40%	25%	31%	-15%	-5%	-3%
Adj EPS (₹)	77.4	101.6	129.3	147.7	176.2	EBITDA margin	11.1%	12.0%	11.7%	10.8%	12.0%	11.9%
CEPS	93.7	119.5	151.3	172.8	202.3	PAT	224	242	354	297	537	1,343
Book value	554.2	620.7	732.1	831.3	901.8	Adj PAT	224	266	354	297	495	276
Dividend (₹)	22.0	58.9	-	88.6	90.4	Change (q-o-q)	-40%	19%	33%	-16%	67%	-44%
Actual o/s shares (mn)	11.7	11.7	11.7	11.6	11.6	Adj PAT margin	7.1%	7.3%	7.3%	6.6%	12.9%	7.3%
						Adj EPS	19	23	30	26	43	24

Source: CRISIL Research

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**Last updated: April 2016**

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Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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