

Page Industries

Accumulate

View: Volumes decline; downgrade to Accumulate

- Page Industries' results were below our estimates. The company exhibited worst volume performance with 2.8% de-growth compared to 12.1%/9.1% reported in Q3FY19/Q2FY20.
- During Q3FY20, most of the company's in the innerwear industry reported muted sales growth – Lux (+7%), Dollar (+4%) and Rupa (+5%). This implies that the overall industry has witnessed slowdown during the quarter. We attribute this to delayed winter and unfavorable base. Decline in GM and investment in technology hampered operating margins. We continue to believe that Page has all levers in place to post strong volume growth once the economic condition stabilizes.
- Going ahead, we believe that the new product launches in men, women and kid's category and impetus to increase penetration especially in kid's category, will potentially help the company to gain market share. Revival in domestic demand is a key for volume growth.
- We have downward revised our EPS estimates for FY20E and FY21E at ₹ 351 and ₹ 420 respectively and introduced FY22E at ₹ 501. Consequently, we downgrade the stock to Accumulate. Buy on dips. (TP ₹ 25,052; 50x FY22E; scarcity premium due to business profile).

Significant margin erosion

Net Sales grew 7.5% YoY to ₹ 7,938mn in Q3FY20. GM contracted by 390bps to 53.2%. In addition, 110bps increase in employee expenses resulted in 490bps contraction in EBITDA margin to 17.5%. EBITDA decreased 16% YoY to ₹ 1,388mn. PAT declined 14.6% YoY to ₹ 870mn- was below our estimate.

Volume growth expected to improve here on

During Q3FY20, innerwear industry posted muted revenue growth. In our recent survey, we mentioned that the volume growth slowed down significantly post October'2019. In addition, delayed winter resulted in lower sales of winter products during the quarter. However, our channel checks also suggest that delayed winter does not result in postponement of buying. We believe that the base would become favorable here on. In addition, improvement in volumes would result in improvement in operating leverage.

Q3FY20 Result (₹ Mn)

Particulars	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
Revenue	7,938	7,383	7.5	7,754	2.4
Total Expense	6,550	5,731	14.3	6,264	4.6
EBITDA	1,388	1,653	(16.0)	1,490	(6.9)
Depreciation	164	82	100.9	147	11.8
EBIT	1,224	1,571	(22.1)	1,344	(8.9)
Other Income	35	95	(63.3)	57	(39.4)
Interest	90	41	120.0	81	11.0
EBT	1,169	1,625	(28.1)	1,321	(11.5)
Tax	299	606	(50.7)	175	70.3
RPAT	870	1,019	(14.6)	1,145	(24.0)
APAT	870	1,019	(14.6)	1,145	(24.0)
			(bps)		(bps)
Gross Margin (%)	53.2	57.1	(392)	56.0	(286)
EBITDA Margin (%)	17.5	22.4	(490)	19.2	(174)
NPM (%)	11.0	13.8	(284)	14.8	(381)
Tax Rate (%)	25.6	37.3	(1174)	13.3	1228
EBIT Margin (%)	15.4	21.3	(586)	17.3	(191)

CMP	₹ 23,516
Target / Upside	₹ 25,052 / 7%
BSE Sensex	41,460
NSE Nifty	12,201

Scrip Details

Equity / FV	₹ 112mn / ₹ 10
Market Cap	₹ 262bn
	US\$ 4bn
52-week High/Low	₹ 26,883/₹ 17,150
Avg. Volume (no)	29,324
NSE Symbol	PAGEIND
Bloomberg Code	PAG IN

Shareholding Pattern Dec'19(%)

Promoters	48.3
MF/Banks/FIs	6.9
FII	34.4
Public / Others	10.4

Valuation (x)

	FY20E	FY21E	FY22E
P/E	67.1	55.9	46.9
EV/EBITDA	43.6	36.8	31.3
ROE (%)	44.5	42.3	40.5
RoACE (%)	43.6	41.8	40.2

Estimates (₹ mn)

	FY20E	FY21E	FY22E
Revenue	30,875	35,054	40,189
EBITDA	5,993	7,068	8,288
PAT	3,910	4,690	5,588
EPS (₹)	350.6	420.7	501.2

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Exhibit 1: Actual V/s Estimates Variance

₹ mn	Actual	Estimates	Variance (%)	Comments
Revenue	7,938	8,343	(4.9)	Volume de-growth of 2.8% compared to our expectation of volume growth
EBITDA	1,388	1,792	(22.6)	
EBITDA margin %	17.5	21.5	(400)	Variation due to higher than expected material cost and other expenses
APAT	870	1,186	(26.6)	

Source: Company, DART

Exhibit 2: Change in estimate

₹ Mn	FY20E			FY21E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	30,875	31,758	(2.8)	35,054	37,991	(7.7)
EBITDA	5,993	6,851	(12.5)	7,068	8,242	(14.2)
EBITDA Margin (%)	19.4	21.6	(220bps)	20.2	21.7	(150bps)
PAT	3,910	4,566	(14.4)	4,690	5,605	(16.3)
EPS (₹)	350.5	409.3	(14.4)	420.5	502.5	(16.3)

Source: Company, DART

We have downward revised our revenue estimates for FY20E and FY21E considering slowdown in the industry. We have reduced EBITDA margin estimates considering decline in GM and increased investment in technology. Nevertheless, we expect improvement in EBITDA margins hereon. In line with the reduction in EBITDA, we have cut our APAT estimates.

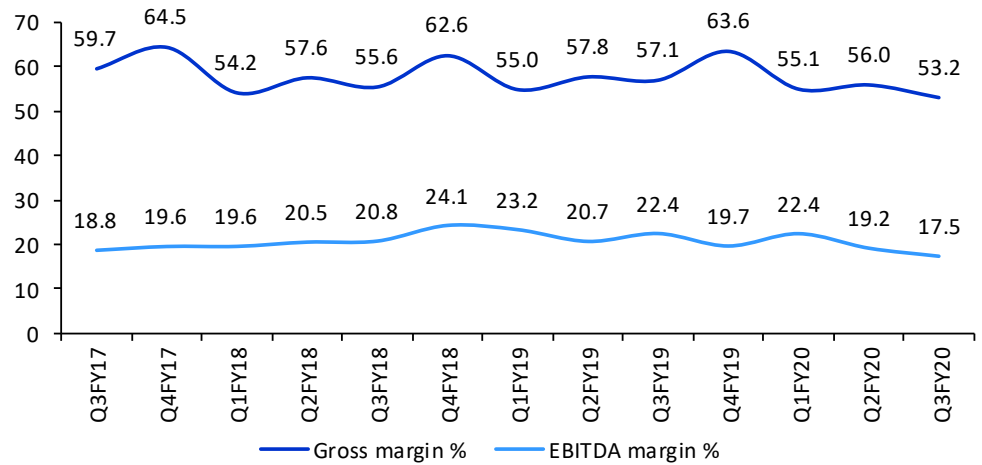
Exhibit 3: Quarterly and 9M Performance

Particulars (₹mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Sales	7,938	7,383	7.5	7,754	2.4	24,042	22,443	7.1
Expenditure	6,550	5,731	14.3	6,264	4.6	19,297	17,470	10.5
Raw Materials	3,718	3,169	17.3	3,410	9.0	10,880	9,754	11.5
Employee Cost	1,346	1,167	15.3	1,343	0.3	3,974	3,431	15.8
Other Expenditure	1,486	1,395	6.6	1,511	(1.6)	4,443	4,285	3.7
Operating Profit	1,388	1,653	(16.0)	1,490	(6.9)	4,744	4,973	-4.6
Other Income	35	95	(63.3)	57.5	(39.4)	147	275	-46.5
Interest	90	41	120.0	80.7	11.0	253	120	110.0
Depreciation	164	82	100.9	146.7	11.8	451	231	95.4
PBT	1,169	1,625	(28.1)	1,321	(11.5)	4,188	4,897	-14.5
Tax	299	606	(50.7)	175	70.3	1,066	1,708	-37.6
Net Profit	870	1,019	(14.6)	1,145	(24.0)	3,122	3,190	-2.1
	bps			bps			bps	
Gross Margin (%)	53.2	57.1	(390)	56.0	(290)	54.7	56.5	(180)
Employee Cost (%)	17.0	15.8	110	17.3	(40)	16.5	15.3	120
Other Exp (%)	18.7	18.9	(20)	19.5	(80)	18.5	19.1	(60)
OPM (%)	17.5	22.4	(490)	19.2	(170)	19.7	22.2	(240)
NPM (%)	11.0	13.8	(280)	14.8	(380)	13.0	14.2	(120)

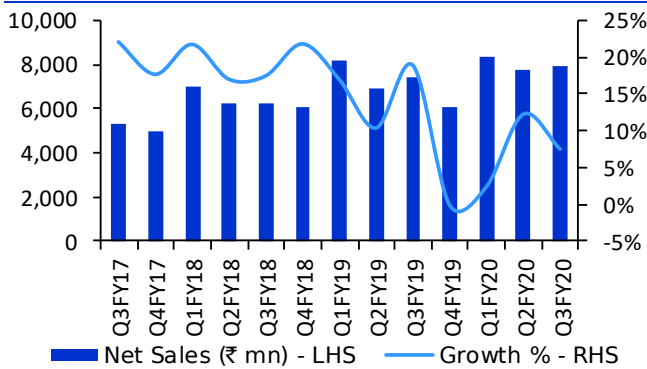
Source: Company, DART

Concall takeaways

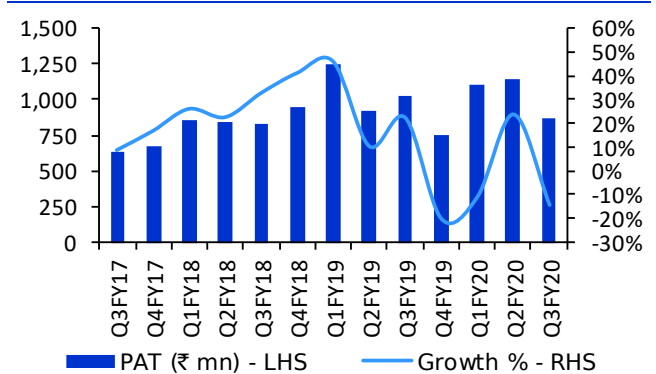
- Volume growth for 9MFY20 stood at +1%.
- Difference between value and volume growth was higher in Q3FY20 due to the change in mix as winter-wear sells at higher price.
- Average price increase on YoY basis was 4-5%.
- Page is working towards doubling its installed capacity from the existing 260 mn pieces in the next 4-5 years.
- During Q3FY20, due to sluggish market conditions, offtakes were much lower.
- Yarn procurement cost has been consistent during the year for the company. No major spike in raw material costs for 9MFY20.
- Company targets EBITDA margin of ~22% in long term (incl. other income).
- Company has >720 EBO's. EBO's are growing at the same rate as company growth rate. However, walk-ins have reduced considerably.
- 90% of Page's business is through distributors. It has a strong network of 4,300+ distributor accounts growing at 4-5% annually.
- Jockey Junior continues to be special focus area. It has received good customer acceptance and feedback. During Q3, company opened 2 exclusive stores for Jockey Junior business. There is a separate sales and marketing team of >120 people across the country for the business.
- Unavailability of pan India brand in kids offers opportunity to grow in the category.
- Page expects to maintain incentives in the range of 3.5-4% sales.
- Company had 55K MBO's at end of FY19 and now increased it to ~63K.
- Company expects operating leverage to improve going forward.
- Inventory has come down to 75 days in Q3FY20 from 85 days in Q2FY20.
- Market share gain is expected to remain a priority for the company.
- Investments related to technology & automation, factory overheads and key recruitments impacted EBITDA margins in 9MFY20.
- Jockey has a market share of 19-20% in premium men's innerwear, 5-6% in women's innerwear, 6-8% in athleisure/ outerwear category.

Exhibit 4: Quarterly trend in operating performance


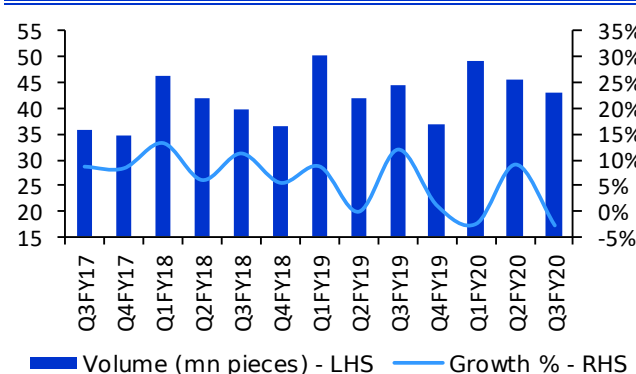
Source: DART, Company

Exhibit 5: Trend in Net Sales (YoY)


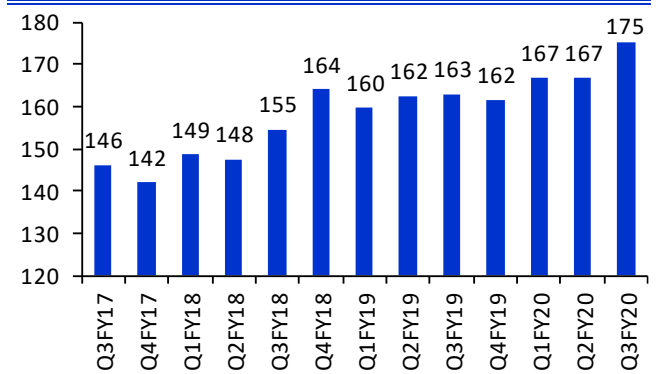
Source: DART, Company

Exhibit 6: Trend in PAT Growth (YoY)


Source: DART, Company

Exhibit 7: Trend in Volume Growth


Source: DART, Company

Exhibit 8: Trend in Blended Realization (₹/piece)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
Revenue	28,522	30,875	35,054	40,189
Total Expense	22,353	24,882	27,986	31,901
COGS	13,963	15,571	17,519	20,088
Employees Cost	4,675	5,376	6,021	6,864
Other expenses	3,715	3,935	4,446	4,949
EBIDTA	6,169	5,993	7,068	8,288
Depreciation	308	613	653	680
EBIT	5,861	5,380	6,415	7,607
Interest	163	343	352	362
Other Income	364	211	232	256
Exc. / E.O. items	0	0	0	0
EBT	6,063	5,248	6,296	7,501
Tax	2,121	1,338	1,605	1,913
RPAT	3,942	3,910	4,690	5,588
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,942	3,910	4,690	5,588

Balance Sheet

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
Sources of Funds				
Equity Capital	112	112	112	112
Minority Interest	0	0	0	0
Reserves & Surplus	7,638	9,718	12,214	15,187
Net Worth	7,750	9,830	12,325	15,298
Total Debt	848	848	848	848
Net Deferred Tax Liability	125	125	125	125
Total Capital Employed	8,723	10,803	13,298	16,271

Applications of Funds

Net Block	3,004	3,191	3,288	3,458
CWIP	72	72	72	72
Investments	0	0	0	0
Current Assets, Loans & Advances	10,048	11,070	13,499	16,368
Inventories	7,501	6,598	7,491	8,588
Receivables	1,238	1,340	1,522	1,745
Cash and Bank Balances	441	1,609	2,757	4,052
Loans and Advances	868	1,523	1,729	1,982
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	4,402	3,530	3,561	3,627
Payables	1,220	666	749	859
Other Current Liabilities	3,182	2,864	2,812	2,767
Net Current Assets	5,646	7,540	9,938	12,741
Total Assets	8,723	10,803	13,298	16,271

E – Estimates

Important Ratios

Particulars	FY19A	FY20E	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	51.0	49.6	50.0	50.0
EBIDTA Margin	21.6	19.4	20.2	20.6
EBIT Margin	20.5	17.4	18.3	18.9
Tax rate	35.0	25.5	25.5	25.5
Net Profit Margin	13.8	12.7	13.4	13.9
(B) As Percentage of Net Sales (%)				
COGS	49.0	50.4	50.0	50.0
Employee	16.4	17.4	17.2	17.1
Other	13.0	12.7	12.7	12.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	36.0	15.7	18.2	21.0
Inventory days	96	78	78	78
Debtors days	16	16	16	16
Average Cost of Debt	21.2	40.5	41.5	42.7
Payable days	16	8	8	8
Working Capital days	72	89	103	116
FA T/O	9.5	9.7	10.7	11.6
(D) Measures of Investment				
AEPS (₹)	353.5	350.6	420.7	501.2
CEPS (₹)	381.2	405.7	479.2	562.2
DPS (₹)	344.1	140.3	168.3	200.5
Dividend Payout (%)	97.3	40.0	40.0	40.0
BVPS (₹)	695.1	881.6	1105.4	1372.0
RoANW (%)	48.6	44.5	42.3	40.5
RoACE (%)	45.6	43.6	41.8	40.2
RoAIC (%)	69.4	61.6	65.0	66.9
(E) Valuation Ratios				
CMP (₹)	23516	23516	23516	23516
P/E	66.5	67.1	55.9	46.9
Mcap (₹ Mn)	262,207	262,207	262,207	262,207
MCap/ Sales	9.2	8.5	7.5	6.5
EV	262,614	261,446	260,297	259,002
EV/Sales	9.2	8.5	7.4	6.4
EV/EBITDA	42.6	43.6	36.8	31.3
P/BV	33.8	26.7	21.3	17.1
Dividend Yield (%)	1.5	0.6	0.7	0.9
(F) Growth Rate (%)				
Revenue	11.8	8.3	13.5	14.6
EBITDA	14.1	(2.9)	17.9	17.3
EBIT	14.3	(8.2)	19.3	18.6
PBT	17.2	(13.4)	20.0	19.1
APAT	13.6	(0.8)	20.0	19.1
EPS	13.6	(0.8)	20.0	19.1

Cash Flow

(₹ Mn)	FY19A	FY20E	FY21E	FY22E
CFO	2,662	4,141	4,446	5,122
CFI	1,760	(800)	(750)	(850)
CFF	(4,650)	(2,173)	(2,547)	(2,977)
FCFF	2,242	3,341	3,696	4,272
Opening Cash	669	441	1,609	2,757
Closing Cash	441	1,609	2,757	4,052

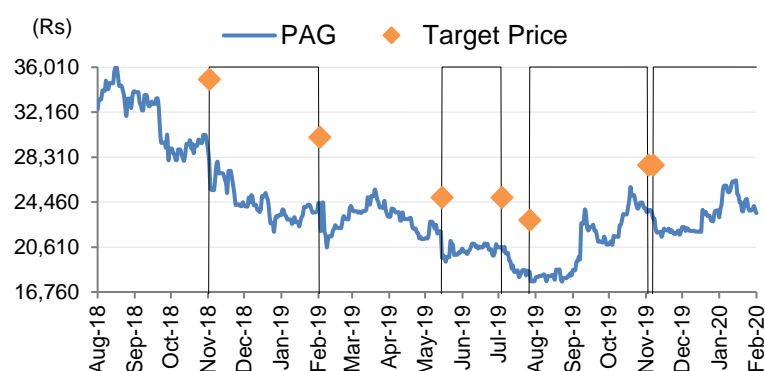
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-18	BUY	35,000	27,896
Feb-19	Buy	30,030	23,990
May-19	Buy	24,866	19,692
Jul-19	Buy	24,866	20,577
Aug-19	Buy	22,914	18,481
Nov-19	Buy	27,639	23,762
Nov-19	Buy	27,639	23,018

*Price as on recommendation date

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