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Q4FY20 result review
and earnings revision

Consumer Staples & Discretionary

Target price Rs19,000

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 0.4	↓ 0.5
EBITDA	↑ 0.3	↑ 1.9
PAT	↑ 0.9	↑ 2.1

Target price revision

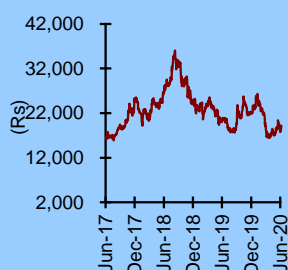
Rs19,000 from Rs 18,000

Shareholding pattern

(%)	Sep '19	Dec '19	Mar '20
Promoters	48.3	48.3	48.3
Institutional investors	40.6	39.7	39.3
MFs and others	5.6	6.9	8.4
Banks/Ins. Co.	0.7	0.7	1.0
FII	34.3	32.1	29.9
Others	11.1	12.0	12.4

Source: NSE

Price chart



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INDIA

ICICI Securities

Page Industries

Fighting the headwinds well

HOLD

Maintained

Rs19,177

4Q was disappointing with 19% volume decline. We expect the weakness to continue in the medium-term and see multiple headwinds – (1) prolonged period of weak performance given a highly discretionary product, (2) difficulties in new category launches / scale up and (3) potential delay in premiumisation journey. Profitability is also likely to come under pressure given the high fixed cost structure and limited headroom for price hikes in the current environment. That said, there are long-term benefits from potential weakness in competitive intensity. Essentially, a likely instance of market share gains in a downturn. Retain HOLD.

- **Volume declined 19%:** Revenue / EBITDA / PAT declined 11% / 51% / 59%. Management stated that revenue growth would have been >10% had it not been for the disruptions in March, estimating the impact to revenue at Rs 1.5 bn (products worth Rs 0.9 bn were billed but could not delivered to the distributors and hence were not recognised as revenue). Page has reopened 89% of its EBOs (677 outlets out of 760) and 64% of large format stores (1290 stores) by mid-June and has reached 85% of its overall production capacity. Management stated that the company is witnessing strong demand post reopening and some of the EBOs even witnessed more than pre-COVID level average daily sales – some of it likely to be pent up demand though, in our view.
- **Profitability impacted by negative operating leverage:** Gross margin declined 480bps YoY to 58.8% driven by a change in mix of outsourcing and in-house production, in our view. EBITDA margin declined further, down 900bps to 10.7% due to negative operating leverage (+440bps staff costs).
- **Balance sheet and cash flows:** Working capital improved by 10 days to 38 days – driven by improvement in inventory and receivables (down 7 days each) and partially offset by lower payables (down 4 days). This led to a significant growth in cash flows – OCF / FCF grew 125% / 130% to Rs 5.2 bn / Rs 4.4 bn.
- **Valuation and risks:** Our earnings estimates are largely unchanged; modelling revenue / EBITDA / PAT CAGR of 7% / 11% / 12% over FY20-22E. Maintain HOLD with a DCF-based revised target price to Rs19,000 (Rs18,000 earlier). At our target price, the stock will trade at 49x P/E multiple Mar'22E. Key upside risk is faster-than-expected recovery in athleisure segment and key downside risk is potential labour issues in the state of Karnataka (high concentration of manufacturing facilities).

Market Cap	Rs214bn/US\$2.8bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	PAGE.BO/PAG IN	Revenue (Rs mn)	28,522	29,454	23,444	33,998
Shares Outstanding (mn)	11.2	Rec. Net Income (Rs mn)	3,939	3,432	1,281	4,312
52-week Range (Rs)	26307/16498	EPS (Rs)	353	308	115	387
Free Float (%)	51.7	% Chg YoY	13.5	(12.9)	(62.7)	236.6
FII (%)	29.9	P/E (x)	54.3	62.3	167.0	49.6
Daily Volume (US\$/'000)	11,006	CEPS (Rs)	381	363	175	450
Absolute Return 3m (%)	14.7	EV/E (x)	34.7	40.2	84.0	32.8
Absolute Return 12m (%)	(7.5)	Dividend Yield (%)	1.8	0.8	0.3	1.1
Sensex Return 3m (%)	36.7	RoCE (%)	42.4	32.9	12.6	35.1
Sensex Return 12m (%)	(8.7)	RoE (%)	48.6	43.0	15.1	44.1

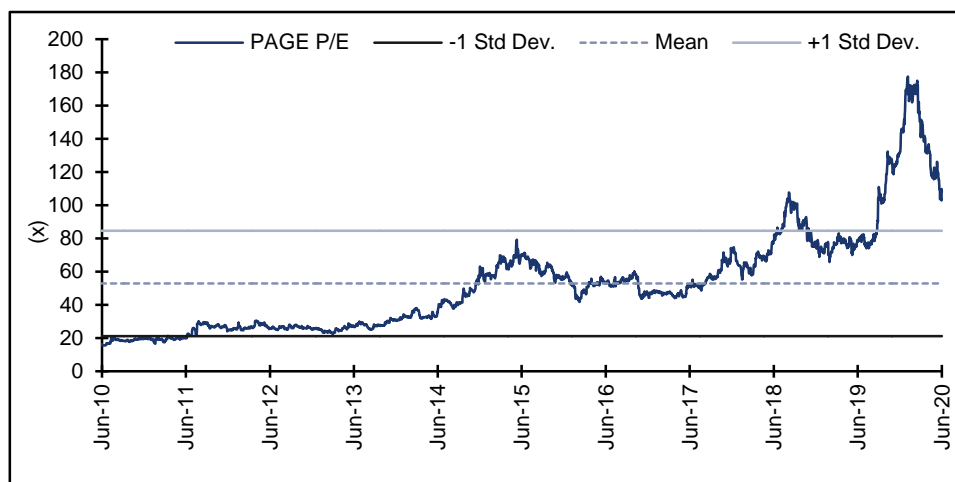
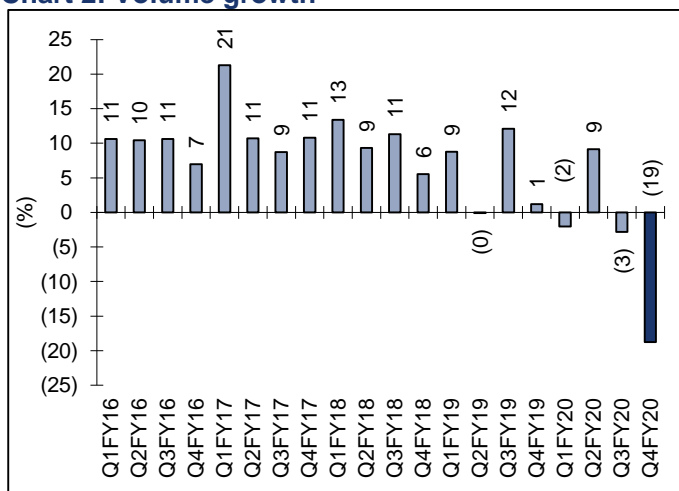
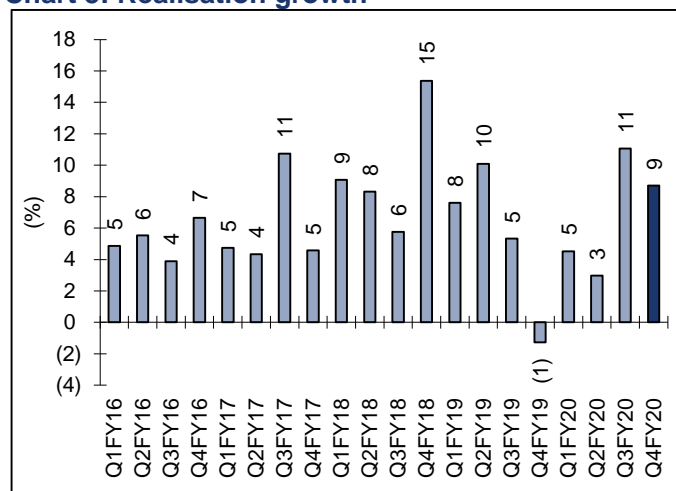
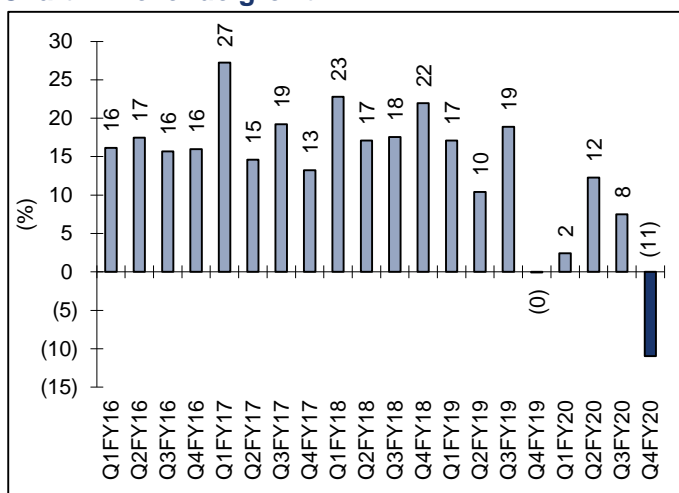
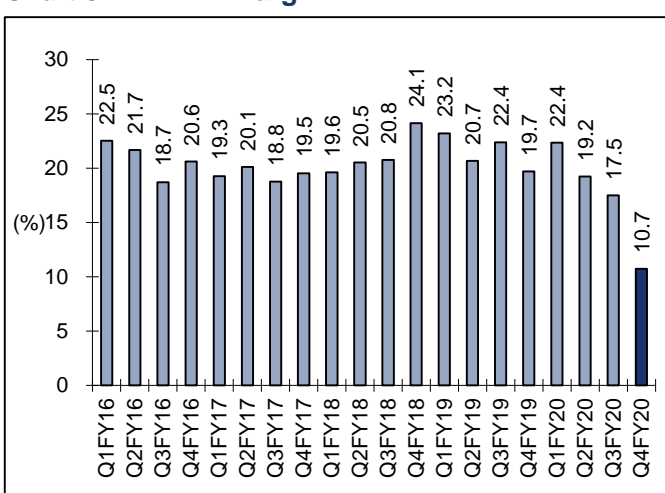
Table 1: Q4FY20 results review (Reported)*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net Revenues	5,413	6,079	(11)	7,938	(32)	29,454	28,522	3
COGS	(2,228)	(2,213)	1	(3,718)	(40)	(13,108)	(11,969)	10
Gross profit	3,185	3,866	(18)	4,220	(25)	16,346	16,553	(1)
Staff cost	(1,344)	(1,244)	8	(1,346)	(0)	(5,317)	(4,675)	14
Other opex	(1,260)	(1,425)	(12)	(1,486)	(15)	(5,703)	(5,708)	(0)
Total opex	(2,603)	(2,669)	(2)	(2,832)	(8)	(11,020)	(10,383)	6
EBITDA	581	1,197	(51)	1,388	(58)	5,326	6,170	(14)
Other income	99	87	14	35	184	246	362	(32)
Finance Cost	(85)	(41)	109	(90)	(5)	(339)	(161)	110
D&A	(163)	(80)	104	(164)	(1)	(614)	(311)	98
PBT	432	1,163	(63)	1,169	(63)	4,620	6,060	(24)
Tax	(122)	(413)	(71)	(299)	(59)	(1,188)	(2,121)	(44)
PAT	310	750	(59)	870	(64)	3,432	3,939	(13)
EPS	28	67	(59)	78	(64)	308	353	(13)
Costs as a % of sales								
COGS	41.2	36.4	475 bps	46.8	-568 bps	44.5	42.0	253 bps
Gross margin (%)	58.8	63.6	-476 bps	53.2	567 bps	55.5	58.0	-254 bps
Staff cost	24.8	20.5	436 bps	17.0	786 bps	18.1	16.4	166 bps
Other opex	23.3	23.4	-18 bps	18.7	455 bps	19.4	20.0	-65 bps
EBITDA margin (%)	10.7	19.7	-895 bps	17.5	-675 bps	18.1	21.6	-356 bps
Income tax rate (%)	28.2	35.5	-736 bps	25.6	259 bps	25.7	35.0	-929 bps

Source: Company data, I-Sec research

Page Industries Q4FY20 call takeaways

- **Trends:** Management stated that they are witnessing trends like (1) strong demand for athleisure segment due to people working from home (salience of athleisure increased by 7% post lockdown) and (2) consumer purchasing for the entire family from one place. Small regional competitors' supply chain has taken a hit leading to Page adding 250 new stores in a month.
- **Operations and recovery:** Page did not supply any products for 45 days during the lockdown. However, by mid-June Page has 89% of EBOs (677 out of 760 outlets) and 64% of large format stores (1290 stores) were functional. Manufacturing operations has started at all sites at 85% of overall capacity with 85% of workforce having returned to work. Page is not facing any labor shortage issue due to reverse migration. Management said that they are witnessing strong demand and some of the stores are seeing more than pre-Covid average sales. Management expects to recover fully in 6-9 months if the demand trend continues.
- **Volume decline and revenue impact:** Volume declined by 18.7% and 3.2% in Q4FY20 and FY20 respectively, which was mostly due to Covid-led disruptions. Management estimates lost sales of Rs 1,500 mn in Q4 – would have reported double-digit revenue and PAT growth otherwise (management estimate).
- **Margins:** Product level EBITDA margins are c.21-22% for all products.
- **Cost rationalisation:** Management is looking at cost rationalisation to mitigate the impact of Covid. Some of the costs they are looking at are labor cost, ad-spends and IT expenditure. Management is aiming to have overall operating expenses to be below FY20 level.
- **Price hike:** Page is yet to decide any price hike in FY21 – it usually takes 4-5% price hike every year.
- **Kidswear:** Jockey Junior has shown some positive trend and has grown 58% in FY20; however, its contribution is still very small.
- **E-Commerce:** E-Commerce contribution has increased to double digits in FY20 (was ~4% in FY19).
- **Working Capital:** Receivables decreased as a lot of distributors are billed towards the end of the quarter, which did not happen and collections kept coming in. The company otherwise operates at 10-11 days receivable cycle.
- **Capacity:** Management stays with plans to double installed capacity from current 260 mn pieces in 4-5 years.
- **Capex:** Management is aiming at Capex similar or lower to FY20.

Chart 1: Mean P/E and standard deviations**Chart 2: Volume growth****Chart 3: Realisation growth****Chart 4: Revenue growth****Chart 5: EBITDA margin**

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenue	28,522	29,454	23,444	33,998
Operating Expenses	22,353	24,128	20,894	27,465
EBITDA	6,169	5,326	2,550	6,533
% margins	21.6	18.1	10.9	19.2
Depreciation & Amortisation	311	614	672	710
Gross Interest	163	339	287	261
Other Income	364	246	121	200
Recurring PBT	6,060	4,620	1,712	5,762
Less: Taxes	2,121	1,188	431	1,450
Less: Minority Interest	-	-	-	-
Net Income (Reported)	3,939	3,432	1,281	4,312
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	3,939	3,432	1,281	4,312

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	10,048	10,145	10,116	14,299
of which cash & cash eqv.	440	1,169	2,863	3,793
Total Current Liabilities & Provisions	4,812	5,185	4,187	6,124
Net Current Assets	5,236	4,961	5,929	8,175
Investments	379	641	587	675
Net Fixed Assets	3,006	4,055	3,667	3,304
Capital Work-in-Progress	72	287	287	287
Total Assets	8,694	9,945	10,471	12,441
Liabilities				
Borrowings	725	1,652	1,607	1,562
Deferred Tax Liability	219	94	76	110
Minority Interest	-	-	-	-
Equity Share Capital	112	112	112	112
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	7,638	8,087	8,677	10,657
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	7,750	8,199	8,788	10,769
Total Liabilities	8,694	9,945	10,471	12,441

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun 19	Sep 19	Dec 19	Mar 20
Net sales	8,350	7,754	7,938	5,413
% growth (YoY)	2.4	12.3	7.5	(11.0)
EBITDA	1,866	1,490	1,388	581
Margin (%)	22.4	19.2	17.5	10.7
Other income	55	57	35	99
Add: Extraordinaries	-	-	-	-
Adjusted net profit	1,107	1,145	870	310

Source: Company data

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	3,954	4,143	2,119	5,083
Working Capital Changes	(1,657)	1,024	762	(1,369)
Capital Commitments	(376)	(747)	(284)	(346)
Free Cashflow	1,921	4,420	2,597	3,367
Cashflow from Investing Activities	1,920	(266)	(163)	(146)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	275	(720)	(45)	(45)
Dividend paid	(4,545)	(2,716)	(692)	(2,331)
Chg. in Cash & Bank balance	(4,547)	(3,775)	(1,024)	(2,637)
Closing cash & balance	(330)	1,126	1,694	930

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	353	308	115	387
Cash EPS	381	363	175	450
Dividend per share (DPS)	344	161	62	209
Book Value per share (BV)	695	735	788	965
Growth (%)				
Net Sales	11.8	3.3	(20.4)	45.0
EBITDA	14.1	(13.7)	(52.1)	156.2
PAT	13.5	(12.9)	(62.7)	236.6
DPS	184.3	(53.2)	(61.5)	237.1
Valuation Ratios (x)				
P/E	54.3	62.3	167.0	49.6
P/CEPS	50.3	52.9	109.5	42.6
P/BV	27.6	26.1	24.3	19.9
EV / EBITDA	34.7	40.2	84.0	32.8
EV / Sales	7.5	7.3	9.1	6.3
Operating Ratios				
Raw Material / Sales (%)	42.0	44.5	44.0	43.5
Employee cost / Sales (%)	16.4	18.1	23.1	17.2
Other exps / Sales (%)	20.0	19.4	22.0	20.1
Other Income / PBT (%)	6.0	5.3	7.1	3.5
Effective Tax Rate (%)	35.0	25.7	25.2	25.2
Working Capital (days)	47.9	37.5	36.5	39.7
Inventory Turnover (days)	96.0	89.0	90.0	90.0
Receivables (days)	15.8	9.1	10.0	10.0
Payables (days)	15.6	11.6	12.0	12.0
Net D/E (x)	0.0	(0.1)	(0.3)	(0.3)
Profitability Ratios (%)				
Net Income Margins	13.8	11.7	5.5	12.7
RoACE	42.4	32.9	12.6	35.1
RoAE	48.6	43.0	15.1	44.1
Dividend Payout	115.4	63.1	54.0	54.1
Dividend Yield	1.8	0.8	0.3	1.1
EBITDA Margins	21.6	18.1	10.9	19.2

Source: Company data, I-Sec research

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