

Enhanced demand for kitchen products augurs well

TTK Prestige reported weak results due to Covid-19 disruptions impacting primary billing in the second half of March. Revenue de-grew 13.8% YoY to ₹ 383.5 crore (I-direct estimate: ₹ 397.6 crore). The company lost sales worth ₹ 70.0 crore due to inability to dispatch orders. Gross margins for the quarter improved 150 bps YoY to 43.6% on account of benign RM prices. However, unabsorbed fixed expenses and higher marketing spends, led to EBITDA margin contraction of 530 bps YoY to 9.2%, with absolute EBITDA declining 45.2% YoY to ₹ 35.2 crore. PAT fell 52.4% YoY to ₹ 20.9 crore. The management commentary on the outlook was upbeat with a surge in demand visible for kitchen appliances, post relaxations in lockdowns.

E-commerce channel share expected to increase

Post relaxation in lockdown, green shoots were visible with renewed customer interest in kitchen appliances, cookers segment as most people preferred home cooked food. Furthermore, certain PSK stores saw more than pre-Covid level average daily sales (10%+ in June) due to pent up demand. Due to absence of domestic help, a resurgence in demand for cleaning segment (2% of sales) was also visible. Share of e-commerce channels is likely to surge materially in FY21E (12-14% in FY20). Revenue from e-commerce space grew 2x in June YoY. TTK is the market leader on e-commerce platform with margins, working capital similar to other channels. The company is currently operating at 50-70% capacity utilisation.

Aggressive product launches to aid in capturing demand

FY20 was a challenging year for the company with revenue de-growth of 1.6% YoY to ₹ 2073.0 crore. The cookers segment (31% of sales) was impacted the most with revenue de-growth of 7.7% YoY. Direct rural sales in FY20 fell 28% YoY to ₹ 115 crore owing to restrictions on MFI channels (~ ₹ 85.0 crore revenue lost) in FY20. The company has gradually rebuilt its distribution network in rural channels and expects to gain momentum, going ahead. During the year, the company introduced 146 new SKUs across categories and is geared up to launch another 100 in FY21E. Furthermore, TTK's new pressure cooker range, 'Swachh' has received healthy traction and has moved its existing product range to the Swachh platform.

Valuation & Outlook

Over the years, TTK Prestige has maintained balance sheet prudence with stringent control on working capital cycle and healthy return ratios. Given the trade liquidity concerns, the company followed a cautious policy on primary sales through better optimisation of working capital (NWC days: 71 days). The company generated healthy operating cashflows worth ~₹ 260 crore and FCF worth ₹ 200 crore in FY20. TTK continues to be virtually debt free and has substantial free cash worth ₹ 365.0 crore. With earnings in the short-term expected to be negatively impacted, the company, through its strong promoter pedigree and brand patronage, is expected to tide over the current situation better than smaller peers. We build in revenue, earnings CAGR of 6%, 13%, respectively, in FY20-22E. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 6300 (37.0x FY22E EPS).

Key Financial Summary

(₹Crore)	FY18	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,871.4	2,106.9	2,073.0	1,934.0	2,327.8	6.0%
EBITDA	247.4	292.0	263.5	229.5	331.5	12.2%
PAT*	263.5	192.4	184.5	156.8	236.4	13.2%
EPS (₹*)	190.0	138.7	133.0	113.0	170.4	
P/E (x)	28.4	38.9	40.6	47.8	31.7	
EV/Sales (x)	4.0	3.5	3.6	3.8	3.1	
EV/EBITDA (x)	30.2	25.6	28.3	32.2	22.1	
RoCE (%)	19.3	21.8	17.1	12.8	17.7	
RoE (%)	25.8	16.5	14.1	10.9	14.7	

Source: Company, ICICI Direct Research. Net Profit for FY18 includes exceptional income worth ₹ 129.0 crore



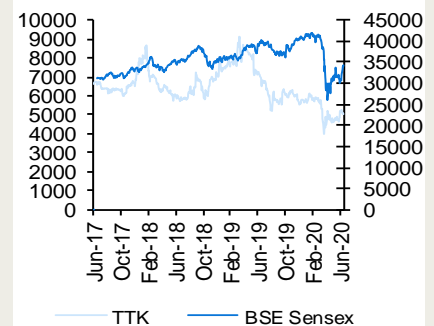
Particulars

Particular	Amount
Market Capitalisation (₹Crore)	7,517.5
Debt (FY 20) (₹Crore)	18.6
Cash (FY 20) (₹Crore)	57.6
EV (₹Crore)	7,478.6
52 week H/L	7700 / 4065
Equity Capital (₹Crore)	13.9
Face Value	10

Key Highlights

- Revenue from e-commerce channel grew 2x in June on YoY basis, while certain PSK stores witnessed more than pre-COVID level average daily sales
- Maintain BUY rating on stock

Price Chart



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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	383.5	397.6	444.9	-13.8	546.1	-29.8	Domestic sales de-grew 13% YoY to ₹ 376 crore while exports saw revenue de-growth of 37% YoY to ₹ 6.9
Other Income	6.3	5.9	7.9	-19.7	5.7	11.1	
Employee Expenses	42.3	41.3	43.2	-2.2	41.8	1.2	
Raw Material Expenses	216.5	228.6	257.6	-16.0	317.9	-31.9	Gross margins improved 150 bps YoY to 43.6%
Other Expenses	89.6	78.7	79.9	12.2	103.4	-13.3	
EBITDA	0.436	0.425	0.421				
EBITDA	35.2	48.9	64.2	-45.2	83.0	-57.7	
EBITDA Margin (%)	9.2	12.3	14.4	-526 bps	15.2	-604 bps	Unabsorbed fixed overheads, higher marketing spends led to contraction in EBITDA margin
Depreciation	10.2	9.1	6.7	50.7	9.0	13.5	
Interest	1.0	0.8	0.4	131.7	0.7	30.1	
Extraordinary	0.0	0.0	0.0	NA	0.0	NA	
PBT	30.4	44.9	64.9	-53.2	79.1	-61.6	
Tax Outgo	9.5	11.3	21.1	-54.9	18.1	-47.6	
PAT	20.9	33.6	43.8	-52.4	60.9	-65.8	

Key Metrics

Segment Revenue (₹)						
Cookers	116.0	110.4	138.0	(16.0)	158.0	-26.6
Cookware	54.0	58.3	65.5	(17.6)	78.0	-30.8
Appliances	199.0	209.7	223.1	(10.8)	288.0	-30.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue	2,082.4	1,934.0	-7.1	2,434.8	2,327.8	-4.4
EBITDA	280.9	229.5	-18.3	352.5	331.5	-6.0
EBITDA Margin (%)	13.5	11.9	-162 bps	14.5	14.2	-24 bps
PAT	202.4	156.8	-22.5	256.8	236.4	-8.0
EPS (₹)	145.9	113.0	-22.5	185.1	170.4	-7.9

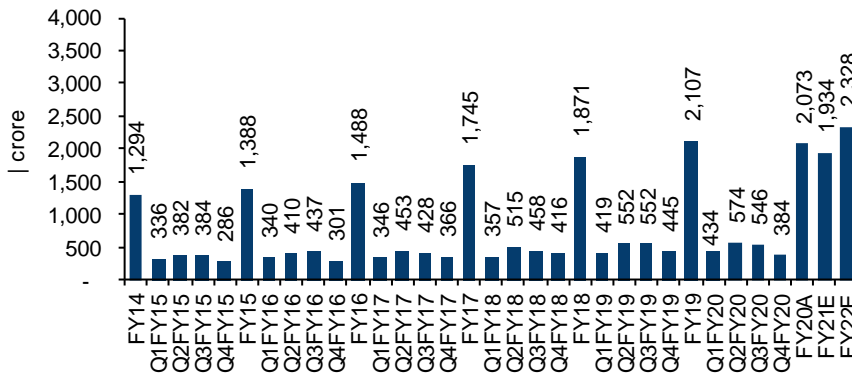
Source: Company, ICICI Direct Research

Key conference call takeaways

- The management indicated that cookware and kitchen appliances are experiencing higher demand post relaxation of lockdown. The company's own stores and other channels were doing better sales than pre-Covid levels
- A significant visible trend is that people are not venturing out to eat and preferring home cooked food. This has led to a surge in demand for cookware and kitchen appliances
- The e-commerce revenue share has doubled in June over last year. The margin profile and working capital requirement in the e-commerce channel is similar to other distribution channels of the company
- The company has strong ambition on the export front and expects to scale up exports significantly over next five years. TTK has sufficient spare capacity to cater to the increased export demand from new customers that the company added over last year
- The different plants of the company are currently operating at 50-70% capacity utilisation levels. Currently, all five plants of the company are operational
- On the sourcing front, the management indicated that sourcing from China was ~10-11%. The company aims to replace that by September 2020 with local sourcing
- On the product portfolio front, TTK already has a large non-stick cookware portfolio and is gradually building a large portfolio of stainless steel cookware segment too
- Over the longer term, it expects revenues to grow in double digits with appliances category expected to grow fastest in the product portfolio
- On the capex front, the management indicated they would be incurring maintenance capex of ₹ 30 crore as they already have sufficient capacity to meet the demand

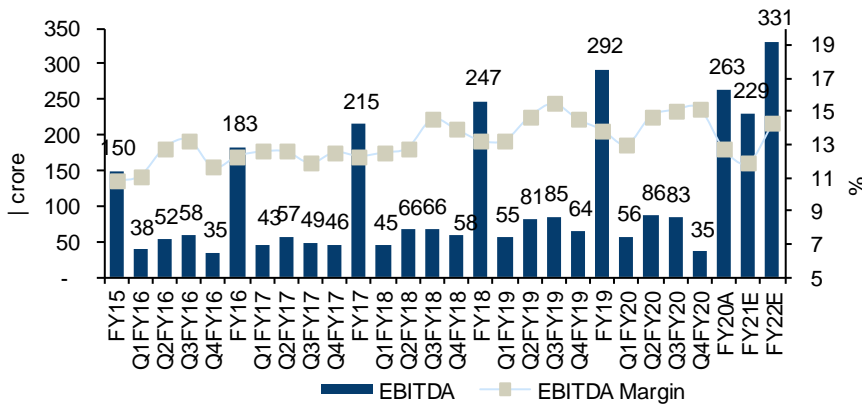
Financial story in charts

Exhibit 3: Revenue trend



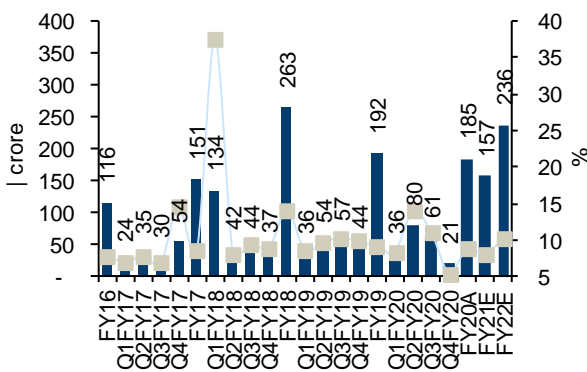
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margin trend



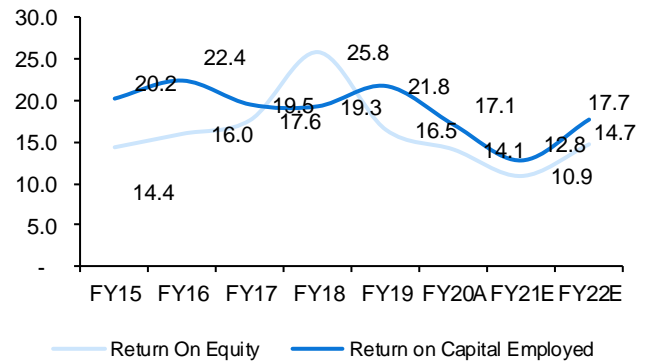
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales Growth (₹cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 19	2,106.9	12.6	138.7	(27.0)	38.9	25.6	16.5	21.8
FY 20A	2,073.0	-1.6	133.0	-4.1	40.6	28.3	14.1	17.1
FY 21E	1,934.0	-6.7	113.0	-15.0	47.8	32.2	10.9	12.8
FY 22E	2,327.8	20.4	170.4	50.7	31.7	22.1	14.7	17.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Total operating income	2,106.9	2,073.0	1,934.0	2,327.8	
Growth (%)	12.6	-1.6	-6.7	20.4	
Raw Material Expenses	1,220.6	1,204.6	1,114.7	1,335.2	
Employee Expenses	186.0	189.3	195.3	207.2	
Manufacturing & other exp	408.3	415.6	394.5	453.9	
Total Operating Expenditure	1,814.9	1,809.5	1,704.5	1,996.3	
EBITDA	292.0	263.5	229.5	331.5	
Growth (%)	18.0	-9.8	-12.9	44.4	
Depreciation	26.5	36.6	38.0	40.2	
Interest	4.5	5.5	6.0	5.6	
Other Income	25.2	24.7	24.2	30.3	
Exceptional Income	0.0	-11.7	0.0	0.0	
PBT	286.3	234.4	209.6	316.0	
Growth (%)	-20.3	-18.1	-10.6	50.7	
Total Tax	94.0	49.9	52.8	79.6	
PAT	192.4	184.5	156.8	236.4	
Growth (%)	-27.0	-4.1	-15.0	50.7	
EPS (₹)	138.7	133.0	113.0	170.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
PAT	192.4	184.5	156.8	236.4	
Add: Depreciation	26.5	36.6	38.0	40.2	
(Inc)/dec in Current Assets	-84.0	21.6	-23.9	-97.6	
Inc/(dec) in CL and Provision	8.2	24.3	-18.5	37.2	
Others	-	-	-	-	
CF from operating activities	143.1	267.0	152.4	216.1	
(Inc)/dec in Investments	-24.8	-139.1	-33.1	-36.4	
(Inc)/dec in Fixed Assets	-38.5	-75.9	-30.0	-40.0	
(Inc)/dec in CWIP	-16.3	14.9	0.7	0.0	
Others	-	(31.2)	-	-	
CF from investing activities	-79.6	-231.3	-62.4	-76.4	
Issue/(Buy back) of Equity	0.0	2.3	0.0	0.0	
Inc/(dec) in loan funds	-74.9	-35.7	41.4	-20.0	
Others	-43.1	-25.9	-27.7	-69.1	
CF from financing activities	-118.0	-59.2	13.6	-89.1	
Net Cash flow	-54.5	-23.5	103.7	50.6	
Opening Cash	135.5	81.0	57.6	161.3	
Closing Cash	81.0	57.6	161.3	211.9	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Liabilities					
Equity Capital	11.6	13.9	13.9	13.9	
Reserve and Surplus	1,154.7	1,294.8	1,423.9	1,591.1	
Total Shareholders funds	1,166.3	1,308.7	1,437.7	1,605.0	
Total Debt	54.3	18.6	60.0	40.0	
Deferred Tax Liability	44.3	32.9	32.9	32.9	
Other LT Liabilities	-	30.0	30.0	30.0	
Total Liabilities	1,264.9	1,390.2	1,560.6	1,707.9	
Assets					
Gross Block (Including Goodwill)	611.8	687.7	717.7	757.7	
Less: Accumulated Depreciation	109.9	146.4	184.5	224.6	
Net Block	502.0	541.3	533.3	533.1	
Capital WIP	20.6	5.7	5.0	5.0	
Total Fixed Assets	522.6	547.0	538.3	538.1	
Investments	191.9	331.0	364.1	400.5	
Inventory	471.4	470.6	476.9	529.3	
Debtors	305.1	278.1	317.9	350.8	
Loans and Advances	76.2	82.2	60.0	72.2	
Other Current Assets	3.7	3.7	3.8	3.9	
Cash	81.0	57.6	161.3	211.9	
Total Current Assets	937.4	892.3	1,019.9	1,168.0	
Current Liabilities	365.3	388.2	369.5	406.4	
Provisions	21.7	23.0	23.3	23.5	
Total Current Liabilities	387.0	411.3	392.7	429.9	
Net Current Assets	550.4	481.0	627.1	738.1	
Others Assets	-	31.2	31.2	31.2	
Application of Funds	1,264.9	1,390.2	1,560.6	1,707.9	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Per share data (₹)					
EPS	138.7	133.0	113.0	170.4	
Cash EPS	157.8	159.4	140.5	199.4	
BV	840.9	943.5	1,036.6	1,157.1	
DPS	30.1	36.1	20.0	42.6	
Cash Per Share	58.4	41.5	116.3	152.7	
Operating Ratios					
EBITDA Margin (%)	13.9	12.7	11.9	14.2	
PBT Margin (%)	13.6	11.3	10.8	13.6	
PAT Margin (%)	9.1	8.9	8.1	10.2	
Inventory days	81.7	82.9	90.0	83.0	
Debtor days	52.9	49.0	60.0	55.0	
Creditor days	60.8	59.9	58.0	58.0	
Return Ratios (%)					
RoE	16.5	14.1	10.9	14.7	
RoCE	21.8	17.1	12.8	17.7	
RoIC	28.0	24.2	19.7	28.2	
Valuation Ratios (x)					
P/E	38.9	40.6	47.8	31.7	
EV / EBITDA	25.6	28.3	32.2	22.1	
EV / Net Sales	3.5	3.6	3.8	3.1	
Market Cap / Sales	3.6	3.6	3.9	3.2	
Price to Book Value	6.4	5.7	5.2	4.7	
Solvency Ratios (x)					
Debt/EBITDA	0.2	0.1	0.3	0.1	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.4	2.2	2.6	2.7	
Quick Ratio	1.2	1.0	1.4	1.5	

Source: Company, ICICI Direct Research

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