

11 August 2020

TTK Prestige

Favourably placed to deliver returns; upgrading to a Buy

Rating: **Buy**

Target Price: ₹6,300

Share Price: ₹5,462

With its robust manufacturing capacity, diversified product range and all-India operations, TTK is favourably placed in Indian kitchen appliances, resulting in maintaining PEx of 35x as we roll over to FY23 earnings. As prospects are improving gradually after a tepid Q1 FY21, it is well set to bounce back once normalcy returns. Strong balance sheet with ₹3.9bn free cash, is a major comforting factor in challenging times.

TTK has been growing in markets where the general trade channel is operational for Q1 FY21 and is capitalising on rising e-commerce as a sales avenue, while modern retail has yet to turn operational. Its superior after-sales service is helping it attract customers in challenging times, and is emerging as a key differentiator compared to local and regional peers. Based on its inherent strengths which brace its ability to navigate challenging times and deliver robust returns in FY22 and FY23, we upgrade the stock to a Buy with a target of ₹6,300 (35x FY23e EPS of ₹180).

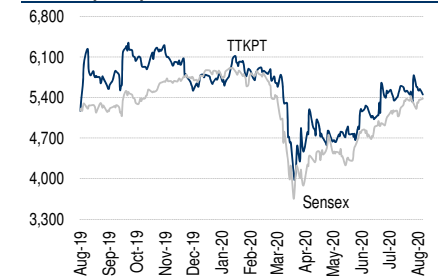
Situation normalising gradually, post-tepid Q1 FY21. With general trade being operational for only 1.5 months in Q1 FY21 and the rising contribution from e-commerce, revenue for the quarter was ₹2.1bn, down 52% y/y. The EBITDA margin contracted to 3.8% due to a 190bp dip in the gross margin because of the product mix and allocation of fixed costs on the lower revenue base. As a result, PAT at ₹41m was 89% y/y lower. However, the situation in Jun'20 has gradually improved and the company expects growth in H2 FY21.

Valuation. We have not revised our FY21e and FY22e, post-Q1FY21 results. We upgrade the stock to a Buy, with a target of ₹6,300 (35x FY23e EPS of ₹180) as we roll over to our estimates to FY23, factoring in revenue/ PAT CAGRs of 13%/23% over FY21-23, resulting in the RoCE rising from 15% to 19%. **Risks:** Major delays in re-opening markets, post-Q2 FY21; keener competition from regional operators.

Key data	TTKPT IN / TTKL.BO
52-week high/low	₹6716 / 3901
Sensex / Nifty	38407 / 11323
3-m average volume	\$0.7m
Market cap	₹76bn / \$1013.2m
Shares outstanding	14m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	70.4	70.4	70.4
- of which, Pledged	-	-	-
Free float	29.6	29.6	29.6
- Foreign institutions	9.5	9.8	9.9
- Domestic institutions	11.2	10.4	9.5
- Public	8.9	9.3	10.0

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (₹ m)	21,069	20,730	19,581	22,086	25,120
Net profit (₹ m)	1,924	1,845	1,649	2,156	2,496
EPS (₹)	138.7	132.8	118.9	155.4	180.0
PE (x)	52.3	38.7	45.9	35.1	30.3
EV / EBITDA (x)	27.9	27.4	30.7	24.3	20.3
PBV (x)	7.2	5.8	5.2	4.7	4.2
RoE (%)	17.6	15.9	11.8	14.1	14.6
RoCE (%)	23.7	17.7	14.9	18.0	19.1
Dividend yield (%)	0.4	0.4	0.4	0.5	0.7
Net debt / equity (x)	0.0	0.0	0.0	0.0	0.0

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

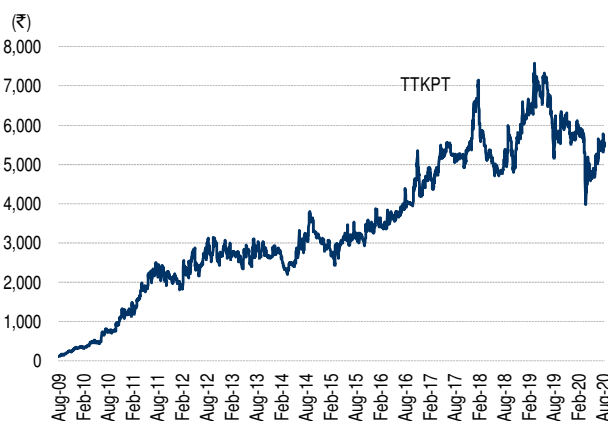
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Net revenues (₹ m)	21,069	20,730	19,581	22,086	25,120
Growth (%)	12.6	-1.6	-9.6	12.8	13.7
Direct costs	12,206	12,046	11,477	12,799	14,449
SG&A	5,943	6,049	5,804	6,428	7,310
EBITDA	2,920	2,635	2,300	2,859	3,362
EBITDA margins (%)	13.9	12.7	11.7	12.9	13.4
- Depreciation	265	366	392	443	531
Other income	252	247	350	525	638
Interest expenses	45	55	60	61	63
PBT	2,863	2,461	2,198	2,880	3,406
Effective tax rate (%)	32.8	21.3	25.0	25.1	26.7
+ Associates / (Minorities)					
Net income	1,924	1,845	1,649	2,156	2,496
Adjusted income	1,924	1,962	1,649	2,156	2,496
WANS	12	14	14	14	14
FDEPS (₹ / sh)	138.7	132.8	118.9	155.4	180.0
FDEPS growth (%)	-27.0	-4.3	-10.4	30.7	15.8
Gross margins (%)	42.1	41.9	41.4	42.0	42.5

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT	2,863	2,461	2,198	2,880	3,406
+ Non-cash items	265	366	392	443	531
Oper. prof. before WC	3,128	2,827	2,590	3,323	3,936
- Incr. / (decr.) in WC	-1,127	759	-41	-772	-814
Others incl. taxes	-1,147	-691	-839	-1,188	-1,484
Operating cash-flow	854	2,895	1,711	1,363	1,639
- Capex (tang. + intang.)	-573	-949	-298	-300	-301
Free cash-flow	281	1,947	1,412	1,063	1,338
Acquisitions					
- Div. (incl. buyback & taxes)	-501	-278	-277	-416	-555
+ Equity raised	-	23	0	-	-
+ Debt raised	-380	-357	-16	-	-20
- Fin investments	-248	-1,391	-1,290	-1,000	-1,200
- Misc. (CFI + CFF)	304	-179	291	464	575
Net cash-flow	(545)	(235)	119	111	138

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

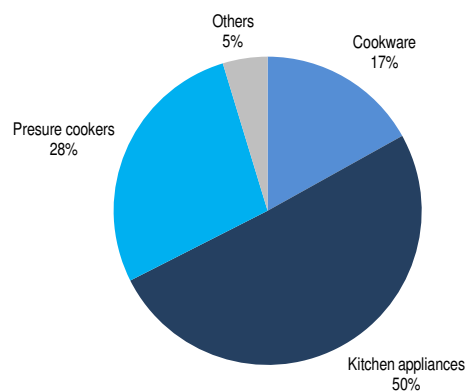
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	116	139	139	139	139
Net worth	11,663	13,063	14,435	16,174	18,116
Debt	543	434	420	320	300
Minority interest	-	24	24	24	24
DTL/(Assets)	443	329	330	330	330
Capital employed	12,649	13,850	15,209	16,848	18,770
Net tangible assets	3,708	4,444	4,342	4,199	3,969
Net intangible assets	34	30	35	35	35
Goodwill	1,278	1,251	1,251	1,251	1,251
CWIP (tang. & intang.)	206	57	60	60	60
Investments (strategic)	264	1	-	-	-
Investments (financial)	1,655	3,310	4,600	5,600	6,800
Current assets (ex cash)	9,841	9,598	9,205	10,173	11,345
Cash	811	576	695	807	944
Current liabilities	3,870	4,165	3,729	4,025	4,383
Working capital	5,971	5,433	5,476	6,148	6,962
Capital deployed	12,649	13,850	15,209	16,848	18,770
Contingent liabilities	642	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	52.3	38.7	45.9	35.1	30.3
EV / EBITDA (x)	27.9	27.4	30.7	24.3	20.3
EV / Sales (x)	3.9	3.5	3.6	3.1	2.7
P/B (x)	7.2	5.8	5.2	4.7	4.2
RoE (%)	17.6	15.9	11.8	14.1	14.6
RoCE (%)	23.7	17.7	14.9	18.0	19.1
RoIC	17.7	15.8	12.2	14.4	15.0
DPS (₹ / sh)	30.0	20.0	20.0	30.0	40.0
Dividend yield (%)	0.4	0.4	0.4	0.5	0.7
Dividend payout (%) - incl. DDT	26.1	15.1	16.8	19.3	22.2
Net debt / equity (x)	0.0	0.0	0.0	0.0	0.0
Receivables (days)	53	49	50	50	50
Inventory (days)	82	83	83	83	83
Payables (days)	35	35	36	36	36
CFO : PAT %	44.4	147.5	103.7	63.2	65.7

Source: Company

Fig 6 – Revenue mix for Q1-FY21



Source: Company

Fig 7 – Financial performance

(₹m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Y/Y	Q/Q	FY19	FY20	Y/Y
Sales (net of discounts)	4,336	5,736	5,461	3,835	2,085	-51.9	-45.6	19,680	19,368	-1.6
RM costs	2,494	3,321	3,179	2,165	1,240	-50.3	-42.7	11,305	11,158	-1.3
Employee expenses	394	420	418	423	356	-9.7	-15.8	1,653	1,654	0.1
Other expenses	886	1,131	1,034	896	411	-53.6	-54.2	3,864	3,947	2.2
EBITDA	563	865	830	352	79	-85.9	-77.5	2,859	2,609	-8.7
Depreciation	71	84	90	102	84	18.1	-17.8	260	346	33.2
Interest	4	7	7	10	7	76.3	-29.5	19	27	41.9
Other income	64	62	57	63	66	3.0	3.8	256	246	-3.8
PBT	552	836	791	304	55	-90.1	-82.0	2,836	2,482	-12.5
Tax	187	33	181	95	14	-92.6	-85.5	933	497	-46.7
Adj. PAT	365	803	609	209	41	-88.8	-80.4	1,903	1,985	4.3
EPS (₹)	26	58	44	15	3	-88.8	-80.4	151	143	-4.8
As % of income						bps Y/Y	bps Q/Q			
Raw material costs	57.5	57.9	58.2	56.4	59.5	194	301.4	57.4	57.6	17
Gross margin	42.5	42.1	41.8	43.6	40.5	-194	-301.4	42.6	42.4	-17
Employee cost	9.1	7.3	7.6	11.0	17.1	797	604.1	8.40	8.54	14
Other expenses	20.4	19.7	18.9	23.4	19.7	-74	-368.8	19.63	20.38	75
EBITDA margin	13.0	15.1	15.2	9.2	3.8	-918	-536.7	14.53	13.47	-105
Depreciation	1.6	1.5	1.6	2.6	4.0	237	135.5	1.32	1.79	47
Interest	0.1	0.1	0.1	0.2	0.3	23	7.4	0.10	0.14	4
Other income	1.5	1.1	1.0	1.7	3.2	168	150.0	1.30	1.27	-3
PBT margin	12.7	14.6	14.5	7.9	2.6	-1011	-529.6	14.41	12.82	-159
Effective tax rate	33.9	4.0	22.9	31.3	25.2	-870	-608.5	32.89	20.02	-1286
PAT margin	8.4	14.0	11.2	5.4	2.0	-645	-347.8	9.67	10.25	58

Source: Company

Q1FY21 Concall Highlights

- Demand in June crossed 90% of June last year. All exclusive channels have done better, resulting in positive EBITDA. TTK has taken various steps to reduce breakeven by improving efficiencies and digitisation. Large modern-format channels were not operational while other channels such as the general trade reported double-digit growth.
- E-commerce is ramping up and accounted for ~25% of the quarter's revenues (vs. 10-12% a year ago). Capacity utilisation in July was ~80% as two-thirds of the markets were opened. Cleaning solutions continued to grow on a lower base.
- Prestige Lifestyle (a new format) stores were opened in Bengaluru and introduced 38 SKUs in existing categories in Q1FY21. The overall count of Xclusive chain stores was 590 at the quarter's close.
- Advertising & promotional expenses were reduced to 4%, from 6-7% earlier. The company advertised in all media formats in the quarter.
- Imports of appliances from China will be stopped by TTK by Sep'20, as planned. TTK has already arranged alternative suppliers in India.
- Exports also are looked upon as a promising growth avenue in FY21, as global OEMs are seeking to new supply chains, reducing dependence on China.

Valuation

At the CMP of ₹5,462, the stock trades at 35x/30x its FY22e/FY23e EPS of ₹155/180. We have not revised our FY21e and FY22e, post-Q1FY21 results. We upgrade the stock to a Buy, with a target price of ₹6,300 (35x FY23e EPS of ₹180) as we roll over our estimates to FY23. We have not lowered our PE multiple on the stock as we roll over to FY23 estimates as inherent strengths of TTK would get consolidated resulting in RoCE expansion and robust free cash-flow generation in FY22 and FY23.

We model 13% and 23% CAGRs over FY21-23 in revenue and PAT respectively, resulting in the RoCE expanding from 15% in FY21 to 19% in FY23. With minimal capex required (of ~₹300m a year), free cash-flow could be ~₹1.3bn a year over FY21-FY23 and result in higher dividend payouts.

Broad-based demand recovery starting with the festival season in Q3FY21 and consistency in collections from channel partners are key monitorables in H2FY21.

Risks

- **Competitive marketplace.** Irrational discounting by regional brands is a major factor to watch.
- **Volatile commodity price.** Consistent rise in prices of key raw materials (aluminium, copper steel, zinc) could cut into profit margins.

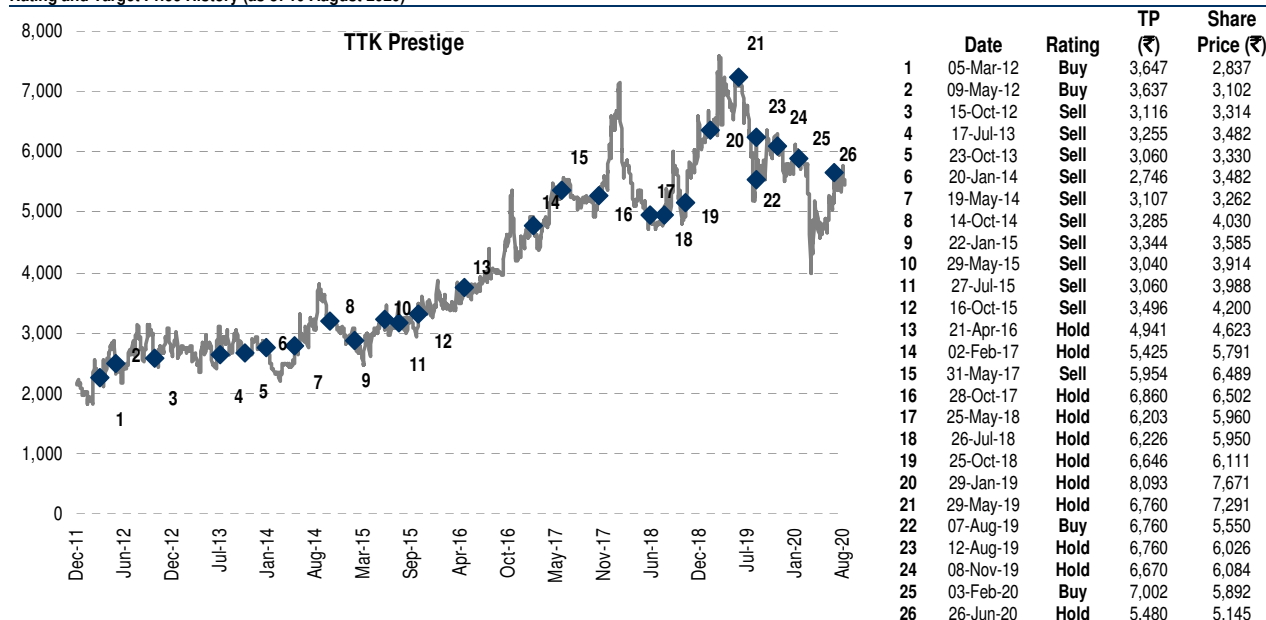
Appendix

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