

### View: Margin erosion remains a risk; maintain Reduce

- Page Industries' results were below our estimates. The company reported 69% volume de-growth, primarily due to closure of stores during April and May'20.
- In addition to contraction in GM, employee expenses remained firm resulted in EBITDA loss during the quarter. GM contraction for the third consecutive quarter was the most discouraging.
- With the opening up of markets, the company was able to re-open 96% EBO's and 90% LFS.
- Though secondary demand during the quarter was positive (+18%), supply issues resulted in de-growth in primary sales. Nevertheless, the company was able to match last year sales in August.
- Going ahead, re-opening of most markets would help address supply constraints. In addition, as the company has high contribution of own manufacturing, it is better placed compared to local manufacturers to address supply constraints, especially in the kids segment.
- We have downward revised our EPS estimates for FY21E and FY22E at Rs 113 (-54%) and Rs 371 (-3%) respectively to factor in extended lock down and decline in margins. We remain cautious until we notice real evidences of growth. Maintain Reduce with TP of Rs 20,380 (55x FY22E EPS).

### Results below our estimates, significant margin erosion

Net Sales fell by 65.9% YoY to Rs 2,848mn in Q1FY21, due to Covid led lockdown - came below our estimate. GM contracted by 700bps to 48.1%. In addition, employee expenses increased 2,780bps. No employee layoffs or salary cuts during the quarter. Operating loss stood at Rs 347mn. Net loss stood at Rs 396mn vs net profit of Rs 1,107mn in Q1FY20.

### Continuous improvement in sales

Page was able to operate mere 33 days during the quarter. The company is witnessing continuous improvement in sales and reached close to last year level during August'20. In the long run, we believe that the premium category and especially Page would report better growth due to high brand loyalty and better supply chain. Kids, women and athleisure segments would be key growth drivers for the company in long run.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	2,848	8,350	(65.9)	5,413	(47.4)
Total Expense	3,195	6,483	(50.7)	4,831	(33.9)
EBITDA	(347)	1,866	(118.6)	581	(159.7)
Depreciation	160	140	14.8	163	(1.6)
EBIT	(508)	1,726	(129.4)	418	(221.4)
Other Income	61	55	10.0	99	(38.9)
Interest	77	83	(7.2)	85	(10.3)
EBT	(524)	1,699	(130.8)	432	(221.3)
Tax	(128)	592	(121.7)	122	(205.5)
RPAT	(396)	1,107	(135.7)	310	(227.5)
APAT	(396)	1,107	(135.7)	310	(227.5)
			(bps)		(bps)
Gross Margin (%)	48.1	55.1	(696)	58.8	(1073)
EBITDA Margin (%)	(12.2)	22.4	(3454)	10.7	(2293)
NPM (%)	(13.9)	13.3	(2714)	5.7	(1962)
Tax Rate (%)	24.5	34.8	(1037)	28.2	(367)
EBIT Margin (%)	(17.8)	20.7	(3850)	7.7	(2555)

CMP	Rs 19,163
Target / Upside	Rs 20,380 / 6%
BSE Sensex	39,014
NSE Nifty	11,528

### Scrip Details

Equity / FV	Rs 112mn / Rs 10
Market Cap	Rs 214bn
	USD 3bn
52-week High/Low	Rs 26,883/Rs 16,254
Avg. Volume (no)	42,134
NSE Symbol	PAGEIND
Bloomberg Code	PAG IN

### Shareholding Pattern Jun'20(%)

Promoters	48.3
MF/Banks/FIs	11.2
FII	25.5
Public / Others	15.0

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	62.3	169.3	51.7
EV/EBITDA	40.2	87.1	33.8
ROE (%)	43.0	14.8	41.5
RoACE (%)	40.9	15.9	38.7

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	29,454	23,823	32,898
EBITDA	5,326	2,441	6,303
PAT	3,432	1,262	4,133
EPS (Rs.)	307.8	113.2	370.7

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**Exhibit 1: Q1FY21 Actual V/s Estimates Variance**

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	2,848	5,910	(51.8)	Higher than expected impact of lockdown
EBITDA	(347)	748	(146.4)	Gross profit was lower than our estimates
EBITDA margin %	(12.2)	12.7	(2,480)	
APAT	(396)	407	(197.1)	

Source: Company, DART

**Exhibit 2: Change in estimate**

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	23,823	27,746	(14.1)	32,898	33,669	(2.3)
EBITDA	2,441	4,433	(44.9)	6,303	6,485	(2.8)
EBITDA Margin (%)	10.2	16.0	(570bps)	19.2	19.3	(10bps)
PAT	1,262	2,747	(54.0)	4,133	4,268	(3.2)
EPS (Rs)	113.2	246.3	(54.0)	370.5	382.7	(3.2)

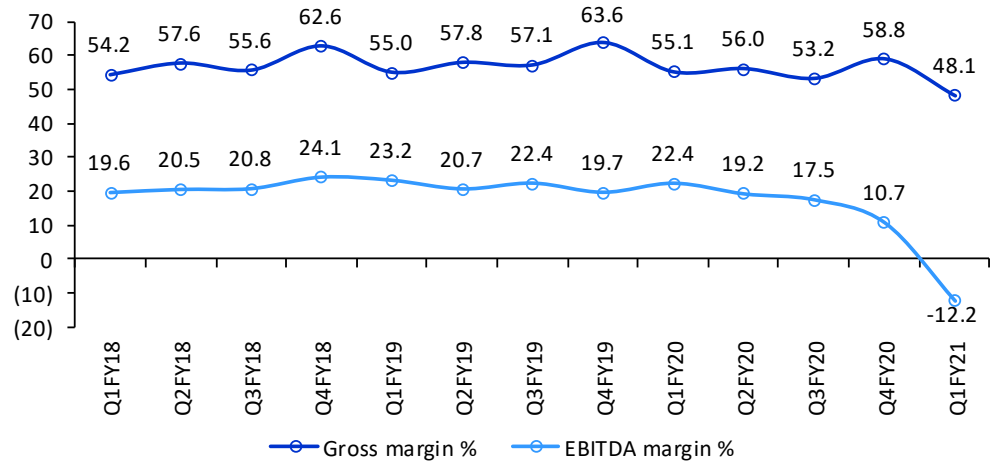
Source: Company, DART

We have downward revised our revenue estimates for FY21E considering extended lock own. We have also reduced our FY22E revenues to factor in uncertainty emerging after Covid-19 situation. We have reduced EBITDA margin estimates considering decline in GM and increased fixed costs. Nevertheless, we expect improvement in EBITDA margins hereon. In line with the reduction in EBITDA, we have cut our APAT estimates.

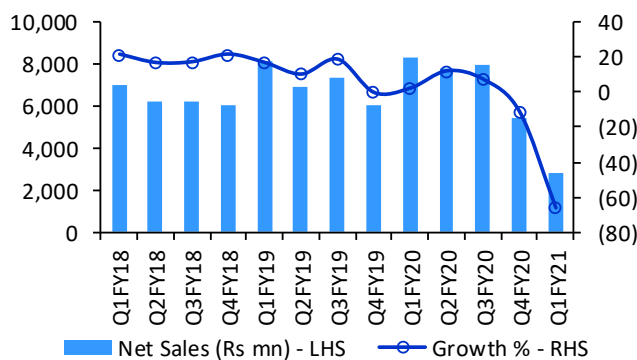
**Concall takeaways**

- Athleisure continues to witness good traction. Average selling price increased 12% YoY in Q1FY21 mainly due to higher contribution of athleisure. Volume declined 69% YoY.
- As per management calculations, gross margin which is normally ~39%, declined to 23% in Q1. GM decline was not due to mix, but due to labour/factory overheads.
- More than 80% of MBO's are fully functional (54,000+ outlets), 96% EBO's (i.e. 742 outlets) and 90% of LFS (1928 stores) have reopened.
- E-com channel has witnessed significant growth. E-com contribution increased to double digit, compared to 3.5-4% last year.
- Strong balance sheet- Working capital has reduced 10% QoQ and 22% YoY to Rs 4,103 mn. Company did not borrow additional funds to meet working capital requirements. Cash & cash equivalent has increased by 56% during Q1 to Rs. 1,734 mn, due to efficient working capital management.
- Sales in Aug'20 were close to that of Aug'19 levels. Average of July-Aug sales were ahead of Q1FY21.
- Page is working on the operating costs front with appropriate measures. It has deferred A&P expenses.

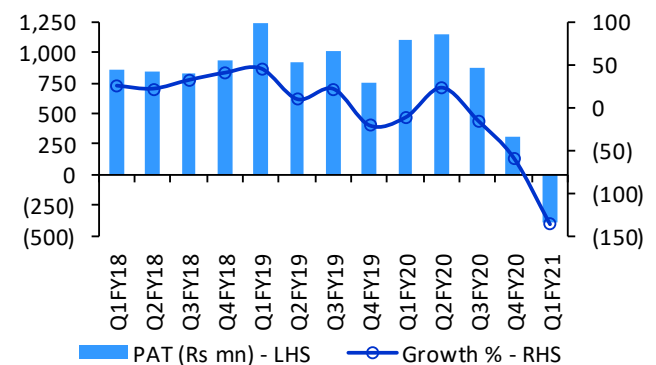
- The company normally observes strong contribution from 6 main metros and 'A' class cities (~60%). During Q1, Mumbai, Chennai, Ahmedabad, Pune were badly impacted due to lockdown, which led to 12.6% decline in contribution from these cities. Contribution from these cities is almost back to last year levels. 'B' and 'C' cities which contribute 10%, grew by 10%.
- Factories are operating at 85-90% capacity levels. Company expects operations to ramp up gradually.
- Investments for capacity expansion are currently on hold. From Jan'21, company will resume investment towards its mission of doubling of capacity from the existing 260 mn pieces in the next 4-5 years.
- The company introduced face masks which received encouraging response.
- Channel inventory was at optimum level in August with enough stock in Distribution and Retail. Secondary sales grew 18% YoY in Q1.
- EBO business was the backbone during challenging time. The company launched whatsapp service during Q1 for customers.
- Page has a standard policy for provisioning. Inventory provision was Rs 107mn in Q1.
- The company expects better growth trajectory in Q3FY21. It is hopeful of EBITDA margin of 21-22% once Covid situation normalizes as all its structural drivers are in place.

**Exhibit 3: Quarterly trend in operating performance**


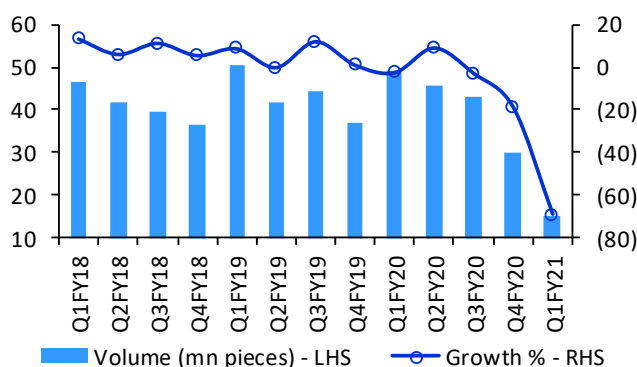
Source: DART, Company

**Exhibit 4: Trend in Net Sales (YoY)**


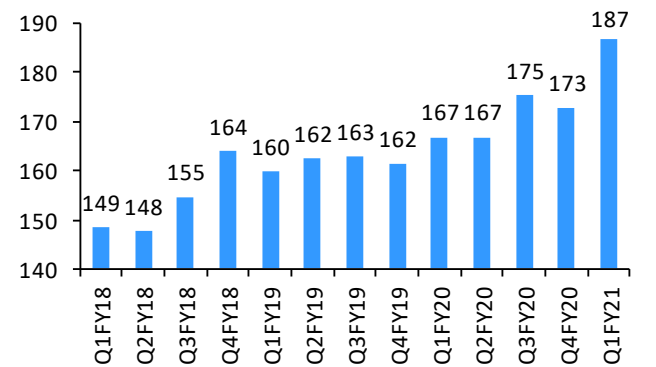
Source: DART, Company

**Exhibit 5: Trend in PAT Growth (YoY)**


Source: DART, Company

**Exhibit 6: Trend in Volume Growth**


Source: DART, Company

**Exhibit 7: Trend in Blended Realization (Rs/piece)**


Source: DART, Company

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>28,522</b>	<b>29,454</b>	<b>23,823</b>	<b>32,898</b>
<b>Total Expense</b>	<b>22,353</b>	<b>24,128</b>	<b>21,382</b>	<b>26,595</b>
COGS	13,963	14,609	12,139	16,307
Employees Cost	4,668	5,317	5,423	5,478
Other expenses	3,721	4,203	3,820	4,810
<b>EBIDTA</b>	<b>6,169</b>	<b>5,326</b>	<b>2,441</b>	<b>6,303</b>
Depreciation	311	614	666	692
<b>EBIT</b>	<b>5,859</b>	<b>4,712</b>	<b>1,775</b>	<b>5,612</b>
Interest	163	339	352	362
Other Income	364	246	271	298
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>6,060</b>	<b>4,620</b>	<b>1,694</b>	<b>5,548</b>
Tax	2,121	1,188	432	1,415
RPAT	3,939	3,432	1,262	4,133
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>3,939</b>	<b>3,432</b>	<b>1,262</b>	<b>4,133</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	112	112	112	112
Minority Interest	0	0	0	0
Reserves & Surplus	7,638	8,087	8,759	10,957
<b>Net Worth</b>	<b>7,750</b>	<b>8,199</b>	<b>8,870</b>	<b>11,069</b>
Total Debt	724	1,649	1,649	1,649
Net Deferred Tax Liability	125	2	2	2
<b>Total Capital Employed</b>	<b>8,599</b>	<b>9,850</b>	<b>10,521</b>	<b>12,720</b>

### Applications of Funds

Net Block	3,002	4,055	4,139	4,297
CWIP	72	287	287	287
Investments	0	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>10,048</b>	<b>10,073</b>	<b>9,458</b>	<b>11,563</b>
Inventories	7,501	7,186	5,091	7,030
Receivables	1,238	738	597	824
Cash and Bank Balances	441	1,169	2,596	2,086
Loans and Advances	868	980	1,175	1,622
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>4,523</b>	<b>4,565</b>	<b>3,363</b>	<b>3,428</b>
Payables	1,220	938	387	519
Other Current Liabilities	3,303	3,627	2,977	2,908
sub total				
Net Current Assets	5,525	5,508	6,095	8,136
<b>Total Assets</b>	<b>8,599</b>	<b>9,850</b>	<b>10,521</b>	<b>12,720</b>

E – Estimates

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	51.0	50.4	49.0	50.4
EBIDTA Margin	21.6	18.1	10.2	19.2
EBIT Margin	20.5	16.0	7.5	17.1
Tax rate	35.0	25.7	25.5	25.5
Net Profit Margin	13.8	11.7	5.3	12.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	49.0	49.6	51.0	49.6
Employee	16.4	18.1	22.8	16.7
Other	13.0	14.3	16.0	14.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.2	0.2	0.1
Interest Coverage	36.0	13.9	5.0	15.5
Inventory days	96	89	78	78
Debtors days	16	9	9	9
Average Cost of Debt	23.1	28.5	21.3	22.0
Payable days	16	12	6	6
Working Capital days	71	68	93	90
FA T/O	9.5	7.3	5.8	7.7
<b>(D) Measures of Investment</b>				
AEPS (Rs)	353.3	307.8	113.2	370.7
CEPS (Rs)	381.2	362.9	172.9	432.7
DPS (Rs)	338.1	202.1	45.3	148.3
Dividend Payout (%)	95.7	65.7	40.0	40.0
BVPS (Rs)	695.1	735.3	795.5	992.7
RoANW (%)	48.6	43.0	14.8	41.5
RoACE (%)	45.9	40.9	15.9	38.7
RoAIC (%)	69.9	56.0	21.4	60.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	19163	19163	19163	19163
P/E	54.2	62.3	169.3	51.7
Mcap (Rs Mn)	213,667	213,667	213,667	213,667
MCap/ Sales	7.5	7.3	9.0	6.5
EV	213,951	214,147	212,721	213,230
EV/Sales	7.5	7.3	8.9	6.5
EV/EBITDA	34.7	40.2	87.1	33.8
P/BV	27.6	26.1	24.1	19.3
Dividend Yield (%)	1.8	1.1	0.2	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	11.8	3.3	(19.1)	38.1
EBITDA	14.1	(13.7)	(54.2)	158.2
EBIT	14.3	(19.6)	(62.3)	216.1
PBT	17.1	(23.8)	(63.3)	227.4
APAT	13.5	(12.9)	(63.2)	227.4
EPS	13.5	(12.9)	(63.2)	227.4

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	2,783	5,130	3,119	2,637
CFI	1,806	(744)	(750)	(850)
CFF	(4,817)	(3,658)	(943)	(2,296)
FCFF	2,409	4,386	2,369	1,787
Opening Cash	669	441	1,169	2,596
Closing Cash	441	1,169	2,596	2,086

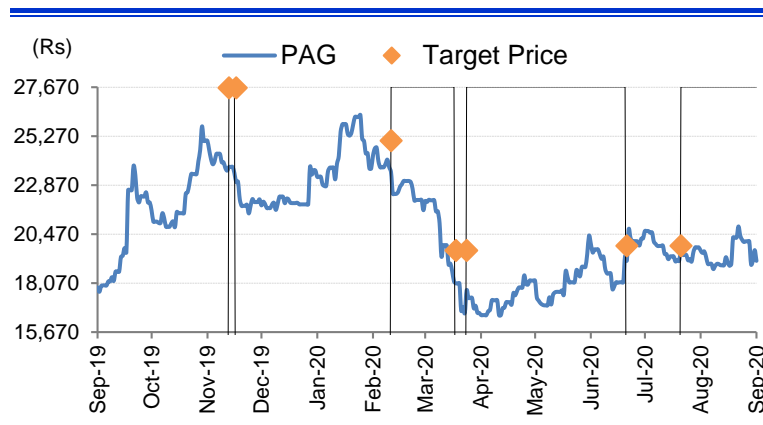
E – Estimates

### 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 (Rs.)	Price (Rs.)
Nov-19	Buy	27,639	23,762
Nov-19	Buy	27,639	23,018
Feb-20	Accumulate	25,052	23,516
Mar-20	Reduce	19,675	18,060
Mar-20	Accumulate	19,675	17,718
Jun-20	Reduce	19,900	19,177
Jul-20	Reduce	19,900	19,598

\*Price as on recommendation date

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