

Estimate change	↑
TP change	↑
Rating change	↔



Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	547.9 / 6.9
52-Week Range (INR)	49800 / 29966
1, 6, 12 Rel. Per (%)	4/21/40
12M Avg Val (INR M)	959

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	38.9	52.1	60.6
Sales Gr. (%)	37.2	34.2	16.1
EBITDA	7.9	11.4	13.4
EBITDA Margin (%)	20.2	22.0	22.1
Adj. PAT	5.4	7.8	9.1
Adj. EPS (INR)	481.0	700.3	813.4
EPS Gr. (%)	57.5	45.6	16.2
BV/Sh.INR	976.0	1130.6	1258.2
Ratios			
RoE (%)	49.3	61.9	64.6
RoCE (%)	50.7	62.8	64.9
Payout (%)	76.9	77.9	78.9
Valuations			
P/E (x)	102.1	70.1	60.4
P/BV (x)	50.3	43.4	39.0
EV/EBITDA (x)	69.5	47.9	40.9
Div. Yield (%)	0.8	1.1	1.1

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	46.1	47.2	47.9
DII	18.8	17.7	18.6
FII	25.2	25.2	23.6
Others	9.9	9.9	9.8

FII Includes depository receipts

CMP: INR49,122 TP: INR46,420 (-6%) Neutral

Beat on all fronts, outlook remains good

- PAG's 1QFY23 result surprised on the revenue front, leading to a beat on overall estimates, despite a higher than expected pressure on gross margin. The management expects yarn costs to come off by Oct- Nov'22.
- Three year revenue CAGR (compared to pre-COVID levels) remains healthy ~17%. We expect the healthy momentum to continue. The management expects operating margin to be in line with its long-term average of 20-22%.
- While the outlook remains robust, we maintain our **Neutral** rating on account of its rich valuation.

Sales outperformance led to an overall beat

- PAG reported a sales growth of 167.4% YoY to INR13.4b (est. INR11.3b) in 1QFY23 over a soft base.
- EBITDA grew 8.7x YoY and 11.5% QoQ to INR3b (est. INR2.6b). PBT grew 18.9x YoY and 11.6% QoQ to INR2.7b (est. INR2.3b).
- Adjusted PAT grew 18.9x YoY and 8.7% QoQ to INR2.1b (est. INR1.7b).
- Gross margin contracted by 320bp YoY and 490bp QoQ to 54.5% (est. 58%).
- As a percentage of sales, lower employee/other expenses (fell 1,430bp/430bp YoY to 16.1%/16.2%) led to an 1,540bp YoY expansion in its EBITDA margin to 22.2% (est. 22.5%).
- On a three-year CAGR basis, sales/EBITDA/PAT grew 17.1%/16.9%/23.2%.
- The Board has declared its first interim dividend of INR60/share.

Highlights from the management interaction

- The company is witnessing good traction in all regions (metro and Tier II/III/IV cities). Premiumization is also healthy.
- Raw material inflation** was seen in cotton yarn, logistics, and packaging. The management expects cotton prices to reduce by Oct-Nov'22.
- Price hike:** PAG has taken a 3.5-4.5% price hike.
- Capex** stands at IN4.5b in FY23. It is investing in digital technology for better efficiency, modernization, assortment planning, and expansion in Odisha.
- It is chosen to raise the number of shifts to increase the capacity. The management said there are no regulatory issues with regard to the same.

Valuation and view

- Strong sales momentum led to an increase in our FY23/FY24 EPS estimate by ~7.5% each, even as near-term challenges with regard to higher material cost persist.
- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), its performance in FY22 has been encouraging, resulting in an improved outlook. RoCE revived to over 50% after 15 years, having dipped to the late 30s in recent years.
- PAG's higher multiples will sustain, driven by healthy revenue and earnings visibility. However, valuations at 60.4x FY24E EPS are rich, which leads us to maintain our **Neutral** rating.

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	5,015	10,840	11,898	11,111	13,413	12,249	13,445	13,033	38,865	52,140	11,335	18.3
YoY change (%)	76.1	46.4	28.3	26.2	167.4	13.0	13.0	17.3	37.2	34.2	126.0	
Gross Profit	2,895	5,941	6,335	6,603	7,311	6,798	7,664	7,686	21,775	29,459	6,574	11.2
Gross margin (%)	57.7	54.8	53.2	59.4	54.5	55.5	57.0	59.0	56.0	56.5	58.0	
EBITDA	342	2,334	2,507	2,671	2,978	2,634	2,958	2,879	7,855	11,449	2,550	16.8
Margins (%)	6.8	21.5	21.1	24.0	22.2	21.5	22.0	22.1	20.2	22.0	22.5	
YoY change	L/P	41.2	10.9	57.3	770.7	12.8	18.0	7.8	49.2	45.8	645.6	
Depreciation	159	165	167	164	180	202	204	341	655	927	183	
Interest	73	74	77	97	85	82	89	96	322	352	82	
Other Income	36	54	71	49	33	60	81	97	210	271	52	
PBT	145	2,148	2,334	2,460	2,746	2,410	2,747	2,540	7,088	10,442	2,337	17.5
Tax	36	543	589	555	675	607	692	657	1,722	2,631	589	
Rate (%)	24.6	25.3	25.2	22.6	24.6	25.2	25.2	25.9	24.3	25.2	25.2	
PAT	109	1,605	1,746	1,905	2,070	1,803	2,054	1,883	5,365	7,811	1,748	18.4
YoY change (%)	L/P	44.8	13.6	64.9	1,790.9	12.3	17.7	-1.2	57.5	45.6	1,496.4	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY22				FY22 1Q
	1Q	2Q	3Q	4Q	
Volume growth (%)	70.0	43.0	24.0	7.0	150.0
Realisation growth (%)	6.1	3.4	4.3	19.2	17.4
2Y CAGR (%)					
Volume (2Y average)	0.5	14.7	17.0	30.5	110.0
Sales	-22.5	18.2	22.4	43.3	117.0
EBITDA	-57.2	25.1	34.4	114.4	LP
PAT	-68.5	18.4	41.6	147.8	LP
% of Sales					
COGS	42.3	45.2	46.8	40.6	45.5
Employee Expenses	30.4	16.3	16.0	18.1	16.1
Other Expenses	20.5	17.0	16.2	17.3	16.2
Depreciation	3.2	1.5	1.4	1.5	1.3
YoY change (%)					
COGS	43.4	48.6	34.7	20.8	187.8
Employee Expenses	24.3	36.1	30.0	21.7	41.4
Other Expenses	110.1	59.5	36.1	11.5	111.8
Other Income	-41.2	44.3	71.9	-11.3	-7.4
EBIT	-136.1	44.9	11.2	62.6	1,428.4



Highlights from management interaction

Performance and demand environment

- PAG witnessed good growth across all product categories.
- The strategy of kids wear in the exclusive women wear stores is showing good results.
- With the increased awareness of healthy lifestyle, Tier2/3 cities are becoming an important marketplace.
- Volumes grew 26% QoQ/150% YoY. 1QFY23 volumes were ~63m v/s 25.2/50m in 1QFY22/4QFY22.
- Speedo (swimwear) – It is back on track and is performing in-line with management estimates.
- The company is witnessing good traction in all regions (metro and Tier II/III/IV cities). Premiumization is also healthy.
- Athleisure has performed better than management expectations.
- E-com - business has increased from 3% to 8-8.5% (it increased to ~10% during Covid).
- Penetration levels – Innerwear 18-20%, Athleisure 7-8%, Junior's 7-8%.

Distribution channels and supply chain

- PAG's distribution network stood at 113k+ MBOs in 2,852+ cities, 1,144 EBOs in 392+ cities, and 3,026+ large format stores with 27 partners.
- There are 47 women EBOs, 71 Junior EBOs. EBOs is ~200-300sq.ft.
- It has increased the number of people on the ground which is in line with the expansion strategy.
- Supply chain – It is back on track.

Costs and margins

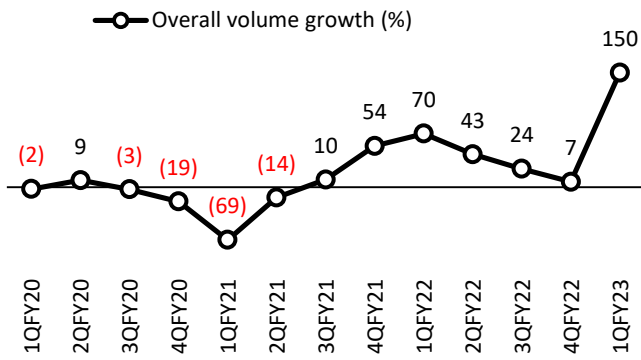
- Calibrated price action helped maintain margin.
- **Raw material inflation** was seen in cotton yarn, logistics, and packaging. The management expects cotton prices to reduce by Oct-Nov'22.
- Gross margin after accounting for subcontracting charges in 1QFY23 was 39.4% v/s 34% in 1QFY22.
- **Price hike:** PAG has taken a 3.5-4.5% price hike.

Other points

- NWC – It has increased to INR7,312m.
- The kind of expansion witnessed in last one year took four years previously.
- 80% of Men is on ARS and other categories significant part is on ARS.
- It is chosen to raise the number of shifts to increase the capacity. The management said there are no regulatory issues with regard to the same. Theoretically can double the capacity but management isn't keen on it, have already achieved 1.4x.
- There is huge gap in the bras market compared globally and management is working on it and believes can be a leader in this category.
- **Capex** stands at IN4.5b in FY23. It is investing in digital technology for better efficiency, modernization, assortment planning, and expansion in Odisha.

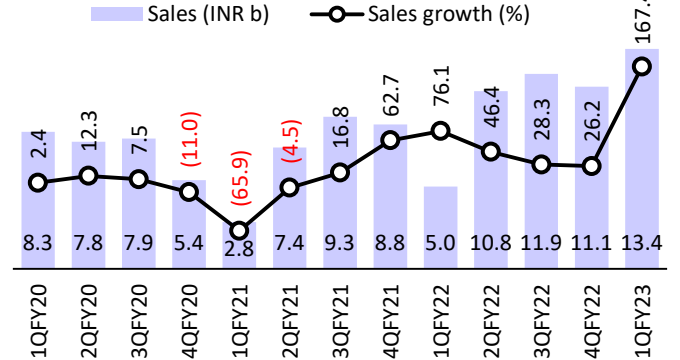
Key exhibits

Exhibit 1: Overall volumes up 150% YoY in 1QFY23



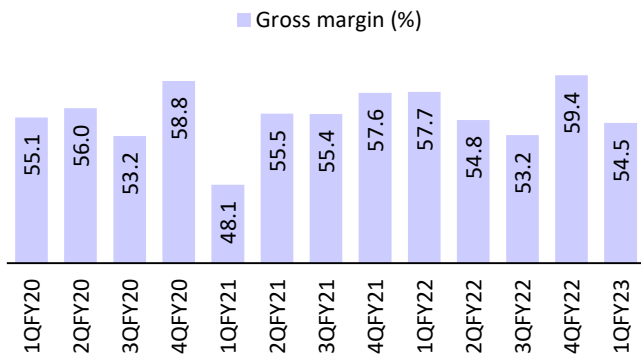
Source: Company, MOFSL

Exhibit 2: Sales growth of 167.4% YoY to INR13.4b



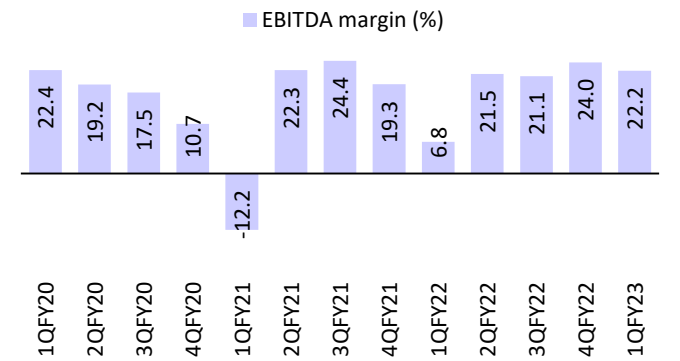
Source: Company, MOFSL

Exhibit 3: Gross margin declines 320bp YoY to 54.5%



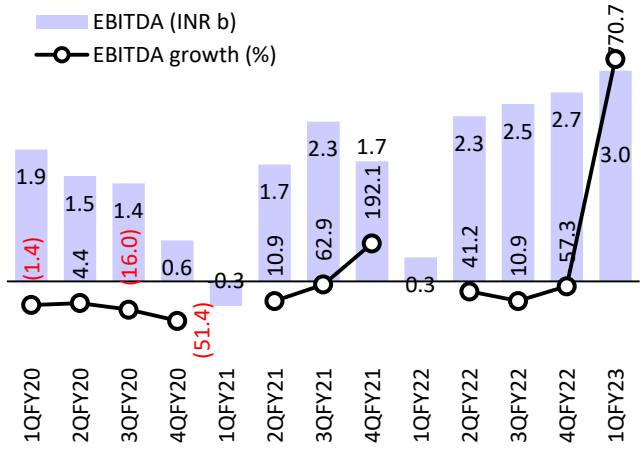
Source: Company, MOFSL

Exhibit 4: EBITDA margin up 1540bp YoY to 22.2%



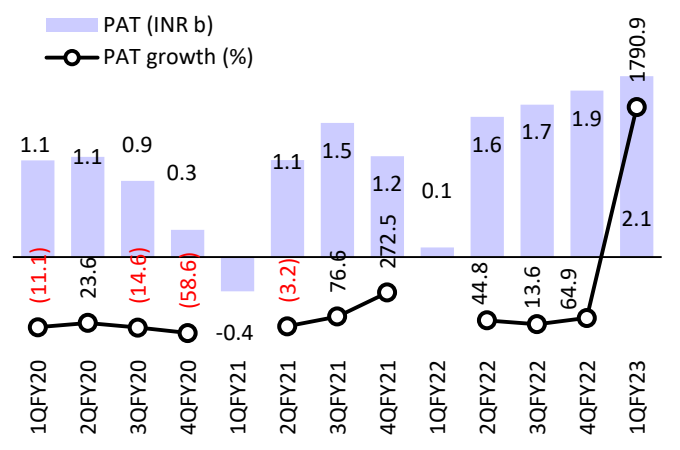
Source: Company, MOFSL

Exhibit 5: EBITDA growth of 8.7x YoY to INR3.0b












Source: Company, MOFSL

Exhibit 6: Adj. PAT growth of 19x YoY to INR2.1b



Source: Company, MOFSL

Exhibit 7: Sustainability focus areas

 <p>Economic Performance Sustain strong financial performance by tracking economic value generated and distributed, assess and address the financial implications of sustainability risks and investing in sustainability projects</p>	 <p>Diversity and Equal Opportunity To ensure a diverse and inclusive workplace through policies, pay parity, infrastructural support and motivation</p>
 <p>Compliance Ensuring Compliance to all legal and statutory requirements by maintaining compliance score cards and creating awareness among third-party/outsourcing factories</p>	 <p>Occupational Health and Safety Promote a zero harm workplace</p>
 <p>Energy and GHG Emissions Reduce our energy intensity by investing in energy efficiency initiatives, adopting renewable energy and consequently reduce direct and indirect emissions</p>	 <p>Materials Ensuring raw materials used in our products are sustainable in terms of impact on the environment, safety of our customers and highest quality and packaging materials are recycled 100%</p>
 <p>Responsible Supply Chain Align sustainability across supply chain and drive responsible business operation by enhancing supplier sustainability assessments, vendor and supplier code of conduct and a responsible chemical management policy</p>	 <p>Water and Effluents Reduce fresh water consumption by adopting innovative water efficient technologies and increasing the percentage of water recycled and reused</p>
 <p>Product Stewardship Enhancing the share of sustainable packaging and product sustainability attributes such as renewable and recycled materials, vendor certifications and Life Cycle Assessment</p>	<p>Sustainability Report 2020-2021: View here</p>

Source: Company

Exhibit 8: New launches by Jockey

JOCKEY - NEW LAUNCHES



Style No. IM16
Polo



Style No. MV25
Track Pant



Style No. RX57
T-shirt



Style No. AB43
Polo



Style No. AG75
T-shirt



Style No. MW81
Performance Trining
Shorts

Source: Company

Valuation and view

What has happened in the last 10 years?

- PAG has had a stupendous track record of topline and earnings growth over the past decade.
- For the period ended FY20, sales/EBITDA/PAT posted a ~24%/~25%/28% CAGR. Earnings growth was led by best-of-breed sales growth, with lower utilization of the margin lever. With sales of ~INR29b in FY20, the growth potential for the Innerwear and Athleisure segments in India remains large. Despite the pandemic impact in FY21, the sales/EBITDA/PAT CAGR for the 10 years ended FY22E is ~19%/19%/20%, which is commendable.
- Even during the pandemic, PAG was one of the few consumer companies to see a sharp rebound after the initial lockdown impact.
- Various factors have played an important role in driving impressive growth in financial metrics over the past decade, such as a) single-minded focus on topline growth, b) the ability to manage a large labor force, c) design strength, d) the successful rollout of outsourcing, e) effective branding, f) premiumization with a value-for-money proposition, and g) the rapid expansion of EBO stores, facilitating cross-selling.
- For the past three years ended FY22E, growth has been relatively modest, with sales/EBITDA/PAT growth at ~10%/6%/8%. In addition to the COVID impact, the advent of competition in Premium Innerwear, overall slowdown in demand, and high commodity inflation are other key factors that affected performance during this period.

Our view on the stock

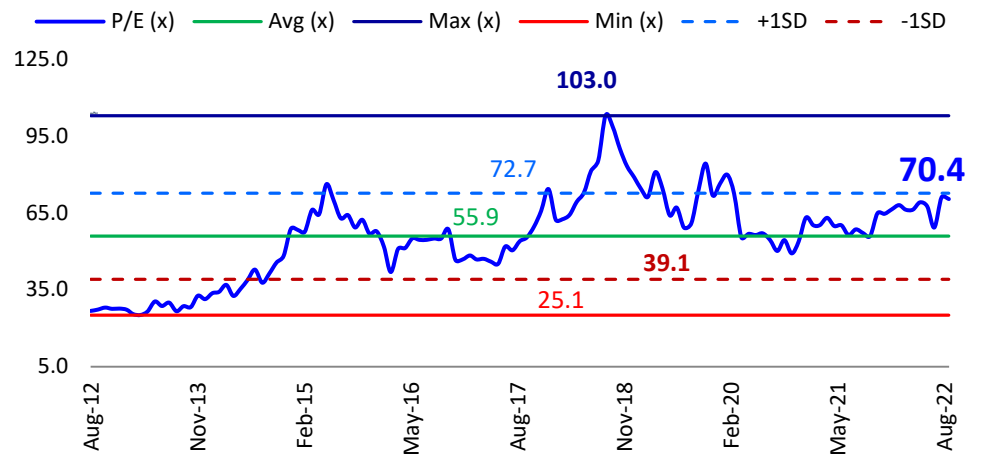
- Strong sales momentum led to an increase in our FY23/FY24 EPS estimate by ~7.5% each, even as near-term challenges with regard to higher material cost persist.
- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), its performance in FY22 has been encouraging, resulting in an improved outlook. RoCE revived to over 50% after 15 years, having dipped to the late 30s in recent years.
- PAG's higher multiples will sustain, driven by healthy revenue and earnings visibility. However, valuations at 60.4x FY24E EPS are rich, which leads us to maintain our **Neutral** rating.

Exhibit 9: We raise our FY23E/FY24E EPS estimates by ~7.5% in view of the beat on our estimates

Particulars (INR m)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	52,140	60,560	48,323	56,114	7.9	7.9
EBITDA	11,449	13,413	10,597	12,372	8.0	8.4
PAT	7,811	9,073	7,270	8,439	7.4	7.5

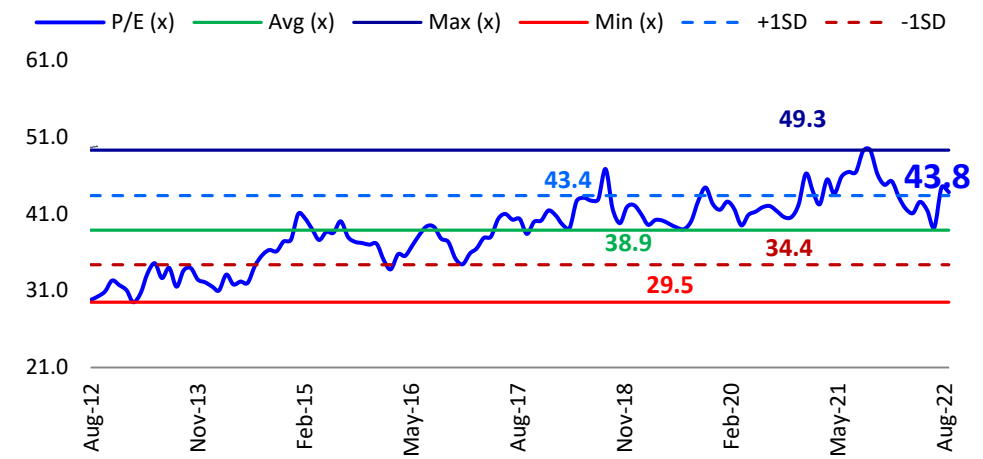
Source: Company, MOFSL

Exhibit 10: PAG's P/E (x)



Source: Company, MOFSL

Exhibit 11: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	25,514	28,522	29,454	28,330	38,865	52,140	60,560
Change (%)	19.9	11.8	3.3	-3.8	37.2	34.2	16.1
Gross Profit	14,640	16,555	16,346	15,690	21,775	29,459	35,125
Margin (%)	57.4	58.0	55.5	55.4	56.0	56.5	58.0
Other operating expenditure	9,234	10,386	11,020	10,424	13,920	18,010	47,147
EBITDA	5,407	6,169	5,326	5,266	7,855	11,449	13,413
Change (%)	30.8	14.1	-13.7	-1.1	49.2	45.8	17.2
Margin (%)	21.2	21.6	18.1	18.6	20.2	22.0	22.1
Depreciation	280	311	614	629	655	927	1,293
Int. and Fin. Ch.	166	163	339	297	322	352	385
Other Inc.- Rec.	215	364	246	195	210	271	394
PBT	5,175	6,060	4,620	4,534	7,088	10,442	12,130
Change (%)	31.1	17.1	-23.8	-1.9	56.3	47.3	16.2
Tax	1,705	2,121	1,188	1,128	1,722	2,631	3,057
Tax Rate (%)	33.0	35.0	25.7	24.9	24.3	25.2	25.2
Adjusted PAT	3,470	3,939	3,432	3,406	5,365	7,811	9,073
Change (%)	30.3	13.5	-12.9	-0.8	57.5	45.6	16.2
Margin (%)	13.6	13.8	11.7	12.0	13.8	15.0	15.0
Reported PAT	3,470	3,939	3,432	3,406	5,365	7,811	9,073

Balance Sheet							(INR m)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	112	112	112	112	112	112	112
Reserves	8,361	7,638	8,087	8,737	10,775	12,499	13,922
Net Worth	8,473	7,750	8,199	8,849	10,886	12,611	14,034
Loans	685	848	1,764	1,270	1,099	1,099	1,099
Capital Employed	9,158	8,598	9,963	10,119	11,985	13,710	15,133
Gross Block	3,048	3,982	5,364	5,481	6,297	10,397	12,897
Less: Accum. Depn.	669	976	1,309	1,618	2,273	3,199	4,492
Net Fixed Assets	2,379	3,006	4,055	3,863	4,024	7,198	8,405
Capital WIP	585	72	287	279	653	653	653
Investments	2,180	0	0	0	0	0	0
Curr. Assets, L&A	8,979	10,427	10,787	12,835	16,356	16,963	18,646
Inventory	5,679	7,501	7,186	5,549	9,749	11,714	11,946
Account Receivables	1,480	1,238	738	1,371	1,651	2,428	2,821
Cash and Bank Balance	669	440	1,169	4,350	2,835	67	905
Others	1,152	1,247	1,694	1,564	2,122	2,754	2,974
Curr. Liab. and Prov.	4,855	4,783	5,165	6,879	9,084	11,139	12,606
Account Payables	1,363	1,220	938	2,175	3,628	4,285	4,646
Other Liabilities	3,216	3,403	3,953	4,504	5,198	6,283	7,297
Provisions	276	159	273	200	258	571	664
Net Curr. Assets	4,123	5,644	5,622	5,956	7,272	5,823	6,039
Def. Tax Liability	110	125	2	-22	-36	-36	-36
Appl. of Funds	9,158	8,598	9,963	10,119	11,985	13,710	15,133

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)							
EPS	311.1	353.2	307.7	305.3	481.0	700.3	813.4
Cash EPS	336.2	381.0	362.7	361.8	539.7	783.3	929.3
BV/Share	759.6	694.8	735.1	793.3	976.0	1,130.6	1,258.2
DPS	131	344	161	250	370	546	549
Payout incldg DDT (%)	46.8	115.4	79.1	81.9	76.9	77.9	78.9
Valuation (x)							
P/E	157.9	139.1	159.6	160.9	102.1	70.1	60.4
Cash P/E	146.1	128.9	135.4	135.8	91.0	62.7	52.9
EV/Sales	21.4	19.2	18.6	19.2	14.1	10.5	9.1
EV/EBITDA	100.9	88.9	103.0	103.5	69.5	47.9	40.9
P/BV	64.7	70.7	66.8	61.9	50.3	43.4	39.0
Dividend Yield (%)	0.3	0.7	0.3	0.5	0.8	1.1	1.1
Return Ratios (%)							
RoE	41.0	50.8	41.9	38.5	49.3	61.9	64.6
RoCE	42.9	45.6	39.7	36.1	50.7	62.8	64.9
RoIC	55.9	55.2	42.2	49.8	77.9	73.3	68.3
Working Capital Ratios							
Asset Turnover (x)	3.1	3.2	3.2	2.8	3.5	4.1	4.2
Debtor Days	19	17	12	14	14	14	16
Creditor Days	18	17	13	20	27	28	27
Inventory Days	85	84	91	82	72	75	71
Leverage Ratio							
Debt/Equity (x)	0.1	0.1	0.2	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
(INR m)							
Profit before Tax	5,175	6,060	4,620	4,534	7,088	10,442	12,130
Depreciation	280	311	614	629	655	927	1,293
Other Non Cash & Non operating activities	46	-361	179	304	186	81	-9
Incr in WC	690	-1,657	1,024	2,751	-2,910	-1,319	622
Direct Taxes Paid	-1,645	-2,056	-1,270	-1,259	-1,750	-2,631	-3,057
CF from Operations	4,546	2,297	5,167	6,959	3,269	7,499	10,979
Incr in FA	-565	-374	-744	-135	-979	-4,100	-2,500
Free Cash Flow	3,981	1,923	4,423	6,824	2,290	3,399	8,479
Pur of Investments	-1,872	2,216	400	-3,950	2,050	0	0
Others	338	65	-319	3,967	-1,891	271	394
CF from Invest.	-2,099	1,907	-663	-119	-820	-3,829	-2,106
Issue of Shares	0	0	0	0	0	0	0
Incr in Debt	0	275	-470	-321	0	0	0
Dividend Paid	-1,624	-4,545	-2,716	-2,787	-3,347	-6,086	-7,650
Others	-359	-163	-589	-551	-617	-352	-385
CF from Fin. Activity	-1,984	-4,433	-3,775	-3,659	-3,964	-6,438	-8,034
Incr/Decr of Cash	463	-228	729	3,181	-1,515	-2,768	838
Add: Opening Balance	206	669	440	1,169	4,350	2,835	67
Closing Balance	669	440	1,169	4,350	2,835	67	905

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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