

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USD\$)	548.1 / 6.7
52-Week Range (INR)	54262 / 36500
1, 6, 12 Rel. Per (%)	-11/9/23
12M Avg Val (INR M)	976

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	38.9	51.2	59.4
Sales Gr. (%)	37.2	31.7	16.1
EBITDA	7.9	10.5	12.8
EBITDA Margin (%)	20.2	20.5	21.5
Adj. PAT	5.4	7.3	8.8
Adj. EPS (INR)	481.0	651.7	790.7
EPS Gr. (%)	57.5	35.5	21.3
BV/Sh.INR	976.0	1119.9	1243.9

Ratios

RoE (%)	49.3	58.2	63.6
RoCE (%)	50.7	58.9	63.8
Payout (%)	76.9	77.9	78.9

Valuations

P/E (x)	101.6	75.0	61.8
P/BV (x)	50.1	43.7	39.3
EV/EBITDA (x)	69.2	51.9	42.6
Div. Yield (%)	0.8	1.0	1.1

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	46.1	46.1	47.9
DII	19.5	18.8	18.8
FII	25.3	25.2	23.7
Others	9.1	9.9	9.5

FII Includes depository receipts

CMP: INR49,140 TP: INR46,750 (-5%) Neutral

Margins under pressure; high base adversely affecting volume growth

- Sales growth is in line and volume growth seems to be tapering off on a high base of athleisure and mask sales (1% volume growth YoY and 7% YoY excluding masks) in 2QFY23.
- Higher yarn/packaging costs YoY (albeit yarn prices declining from its higher levels), staff costs, and ad-spends led to an EBITDA miss in 2QFY23 and are likely to adversely impact 2HFY23 results as well.
- While medium-term sales and earnings outlook are healthy, we reiterate our Neutral rating on account of rich valuations.

Sales and Gross profit in-line; miss on EBITDA

- PAG reported 15.8% YoY sales growth to INR12.6b (in-line) in 2QFY23.
- EBITDA was flat YoY and declined 20.1% QoQ to INR2.4b (est. INR2.7b). PBT was also flat YoY and declined 22.6% QoQ to INR2.1b (est. INR2.5b) in the quarter.
- Adj. PAT was flat YoY and declined 21.7% QoQ to INR1.6b (est. INR1.8b) in the quarter.
- Gross margin expanded 100bp YoY/130bp QoQ to 55.8% (est. 56%) in 2QFY23.
- As a percentage of sales, higher employee expenses (up 200bp YoY to 18.3%) and other expenses (up 150bp YoY to 18.5%) led to EBITDA margin contracting 250bp YoY to 19% (est. 22%) in the quarter.
- 1HFY23 sales/EBITDA/Adj. PAT grew 63.7%/100.1%/115.3% YoY to INR26.0b/5.4b/3.7b in 2QFY23.
- Board of Directors has declared second interim dividend of INR70.

Highlights from the management commentary

- The demand environment was lukewarm during the quarter with low consumer spending. Core volume growth was 7% YoY and including mask it was 1%. Athleisure sales growth tapered off from earlier quarters.
- Cotton/packaging/fuel prices were all high this quarter. However, cotton price has started to moderate. Opex has increased significantly, owing to higher advertisement costs. Even the employee expenses were high, owing to hiring new talents to build new warehousing capacities.
- Going forward, EBITDA margin would revert to its historical levels, i.e., ~20-21%.
- Tax rate will be ~24% in FY23 and FY24.

Valuation and view

- Changes to the model have led to ~9%/~3% reduction in FY23/FY24 EPS, respectively, because of lower pace of volume growth over a high base and near-term margin pressures. If not for lower tax rate guidance, the adverse impact on EPS would have been higher.

- After a few years of an earnings decline (down 4.3% PBT CAGR over FY18-21), PAG's performance in FY22 was encouraging on this high base, however, in 2HFY23, earnings growth is likely to be tepid.
- PAG's medium-term earnings prospects have improved for the better because of investments made in distribution, designs, and technology (which has led to significantly lower inventory levels). RoCEs are also likely to sustain at over 50%, having dipped to the late 30s in FY20 and FY21. However, valuations at 61.8x FY24E EPS are rich, leading us to reiterate our **Neutral** rating on the stock with a TP of INR46,750.

Quarterly Performance

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
Net Sales	5,015	10,840	11,898	11,111	13,413	12,550	13,445	11,770	38,865	51,177	12,249	2.5%
YoY change (%)	76.1	46.4	28.3	26.2	167.4	15.8	13.0	5.9	37.2	31.7	13.0	
Gross Profit	2,895	5,941	6,335	6,603	7,311	6,999	7,664	6,890	21,775	28,864	6,860	2.0%
Gross margin (%)	57.7	54.8	53.2	59.4	54.5	55.8	57.0	58.5	56.0	56.4	56.0	
EBITDA	342	2,334	2,507	2,671	2,978	2,379	2,689	2,470	7,855	10,516	2,695	-11.7%
Margins (%)	6.8	21.5	21.1	24.0	22.2	19.0	20.0	21.0	20.2	20.5	22.0	
YoY change	L/P	41.2	10.9	57.3	770.7	1.9	7.2	-7.5	49.2	33.9	15.4	
Depreciation	159	165	167	164	180	188	204	225	655	797	202	
Interest	73	74	77	97	85	92	89	86	322	352	82	
Other Income	36	54	71	49	33	27	81	82	210	223	60	
PBT	145	2,148	2,334	2,460	2,746	2,125	2,478	2,241	7,088	9,590	2,471	-14.0%
Tax	36	543	589	555	675	504	595	547	1,722	2,321	623	
Rate (%)	24.6	25.3	25.2	22.6	24.6	23.7	24.0	24.4	24.3	24.2	25.2	
PAT	109	1,605	1,746	1,905	2,070	1,621	1,883	1,694	5,365	7,269	1,849	-12.3%
YoY change (%)	L/P	44.8	13.6	64.9	1,790.9	1.0	7.9	-11.1	57.5	35.5	15.2	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
Volume growth (%)	70.0	43.0	24.0	7.0	150.0	1.0
Realisation growth (%)	6.1	3.4	4.3	19.2	17.4	14.8
2Y CAGR (%)						
Volume (2Y average)	0.5	14.7	17.0	30.5	110.0	22.0
Sales	-22.5	18.2	22.4	43.3	117.0	30.2
EBITDA	-57.2	25.1	34.4	114.4	LP	19.9
PAT	-68.5	18.4	41.6	147.8	LP	20.9
% of Sales						
COGS	42.3	45.2	46.8	40.6	45.5	44.2
Employee Expenses	30.4	16.3	16.0	18.1	16.1	18.3
Other Expenses	20.5	17.0	16.2	17.3	16.2	18.5
Depreciation	3.2	1.5	1.4	1.5	1.3	1.5
YoY change (%)						
COGS	43.4	48.6	34.7	20.8	187.8	13.3
Employee Expenses	24.3	36.1	30.0	21.7	0.0	0.0
Other Expenses	110.1	59.5	36.1	11.5	0.0	0.0
Other Income	-41.2	44.3	71.9	-11.3	-7.4	-50.1
EBIT	-136.1	44.9	11.2	62.6	1,428.4	1.0

E: MOFSL Estimates



Highlights from management interaction

Performance and demand environment

- This was the best 2Q in the history of PAG and second best quarter overall.
- Increasing urban population, growing aspirations of global brands, increasing urbanisation will bode well for the company going ahead.
- They witnessed good growth across all product categories. Atlesisure growth compared to 1QFY23 was a bit lower.
- The demand environment was lukewarm in 2QFY23 with low consumer spending.
- Core volume growth was 7% YoY and including mask it was 1%. Revenue is grown 20% in core while 16% inclusive of mask. The base quarter was very strong on volume.
- Speedo business is back on track and is in line with the internal budgets.

Distribution channels and supply chain

- At present the retail network stands at 1,18,123. Total MBOs added in 2QFY23/1HFY23 is 4,408/7,575. They added 47 EBOs in 2QFY23 and are now present in 408+ cities. There are total 1,191+ EBOs with 48/75 exclusive for woman/children. There are total 600+ franchisees and are witnessing high double digit growth EBOs. LFS is now present with 22 partners in 2,741+ stores.
- Supply chain is back on track. Due to improved supply chain company is able to supply the distributor as per the requirement on ground. They have invested a lot in supply chain and now 97% of deliveries are on time. The management is using BlueYonder software to improve the supply chain.
- Fill rate is around early 90s to mid-90. The ARS implementation is ongoing and reaches to 80% stores as of now.
- Throughput per outlet in Tier 4 city will be the same as metro outlet.

Costs and margins

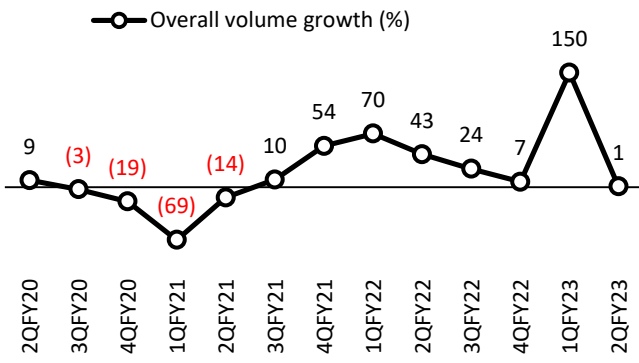
- Cotton/packaging/fuel was all on a higher side in the quarter. Cotton has started to moderate.
- Opex is more because of higher advt. Even the employee expenses were high on account hiring new talents and building new warehousing capacities hence increase in headcounts. Total ad-spends was ~3.5% of revenue for the quarter.
- Going forward EBITDA margin would be to what they were historically i.e. ~20-21%.

Other points

- Net working capital has remained stable as the increase in inventory was offset by increase in payables.
- Capex for the 2HFY23 would be ~INR2.5b.
- Tax rate for the year would be ~24-25%. Low effective tax rate was due to new deduction available with the company w.r.t. joining of new employees'. For FY24 also it would be in this range 24%.
- They invested in inventory a little ahead of the curve and which will rationalise going forward. As raw material prices were going up, they company built up inventory ahead of the curve.
- Dubai – There is mostly supra-premium brands in Dubai. There is low presence of mid-premium brands in Dubai. At present, there are 10 stores in Dubai including presence in the Mall of Dubai too.

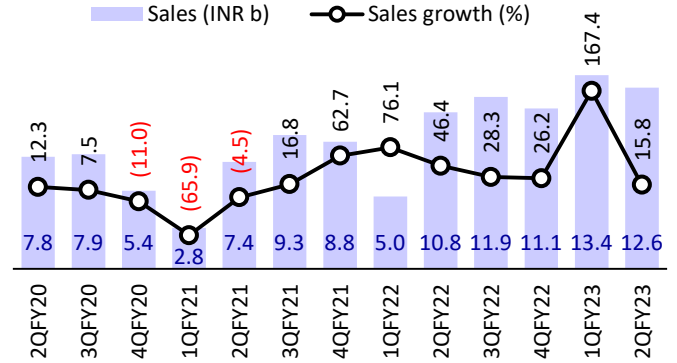
Key exhibits

Exhibit 1: Overall volumes up 1% YoY in 2QFY23 on high base



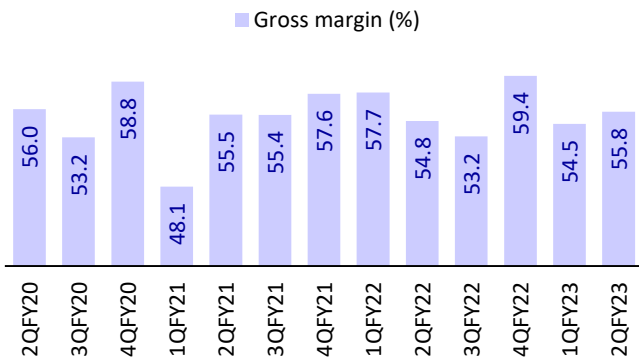
Source: Company, MOFSL

Exhibit 2: Sales growth of 15.8% YoY to INR12.6b



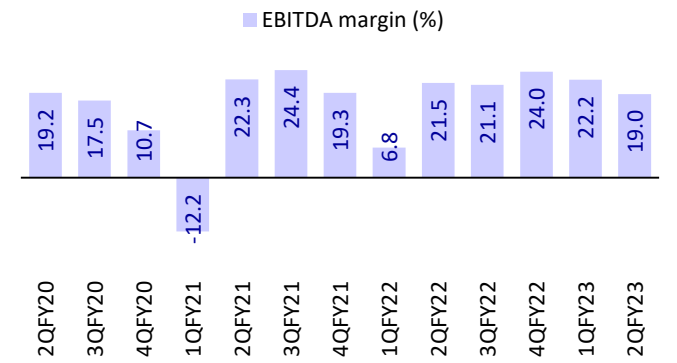
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 100bp YoY to 55.8%



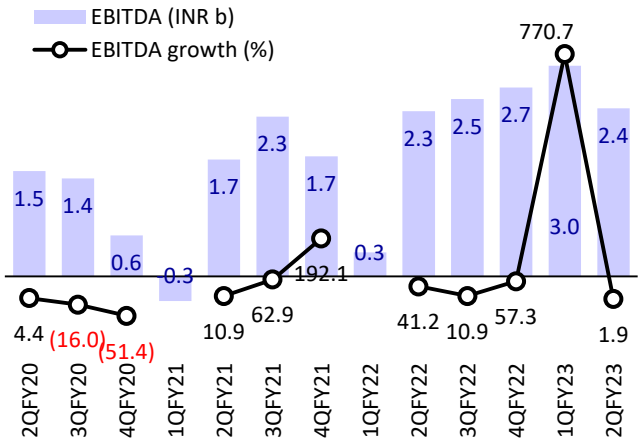
Source: Company, MOFSL

Exhibit 4: EBITDA margin down 250bp YoY to 19%



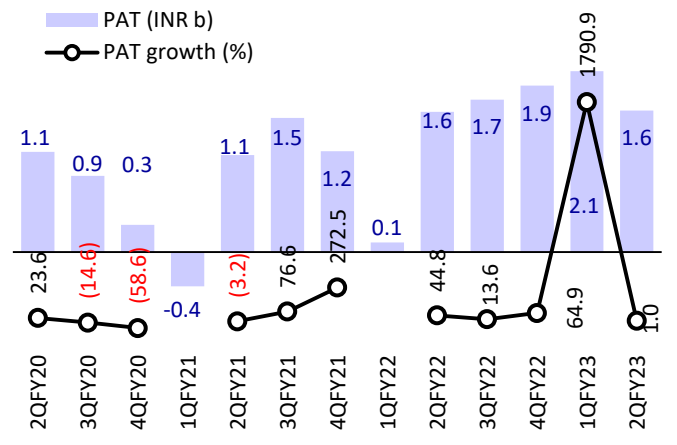
Source: Company, MOFSL

Exhibit 5: EBITDA was flat YoY at INR2.4b



Source: Company, MOFSL

Exhibit 6: Adj. PAT remain flat YoY at INR1.6b



Source: Company, MOFSL

Exhibit 7: Sustainability focus areas

<p>Commitment to Sustainability</p> <ul style="list-style-type: none"> - Public disclosure through sustainability report, corporate presentations and annual publications - Communicate through product development and retail services - Commitment to WASH and contribution to United Nations Sustainability Development Goals (SDGs) 	<p>Building Capacity</p> <ul style="list-style-type: none"> - Comparing processes and business practices to industry-bests - Modifying existing systems and processes to achieve improved efficiency - Invest in R&D and technology for process improvements - Increasing focus on sustainability initiatives and projects
<p>Fostering Commitment</p> <ul style="list-style-type: none"> - Integrating sustainability into vision, mission, value and governance practices - Developing policies, framework and guidelines - Setting annual sustainability targets and goals - Allocation of resources 	<p>Raising Awareness</p> <ul style="list-style-type: none"> - Motivate employees to participate through awareness programs and workshops - Internal competitions as a means to generate and build on new ideas - Posters and fliers promoting sustainability practices and behaviour
<p>Assigning Responsibility</p> <ul style="list-style-type: none"> - Engaging the board and senior management by establishing sustainability committees - Linking incentives to performance on sustainability goals and targets - Identifying, training and assigning responsibility to sustainability champions 	<p>Monitoring and Evaluation</p> <ul style="list-style-type: none"> - Continuous monitoring and evaluation of performance against set goals - Effective feedback - Monitoring effectiveness of employee awareness

Source: Company

Exhibit 8: New launches by Jockey



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 FY22, sales/EBITDA/PAT posted a ~19%/~19.3%/21.2% CAGR. Earnings growth was led by best-of-breed sales growth, with lower utilization of the margin lever. With sales of ~INR38.9b in FY22, the growth potential for the Innerwear and Athleisure segments in India remains large.
- 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.

Our view on the stock

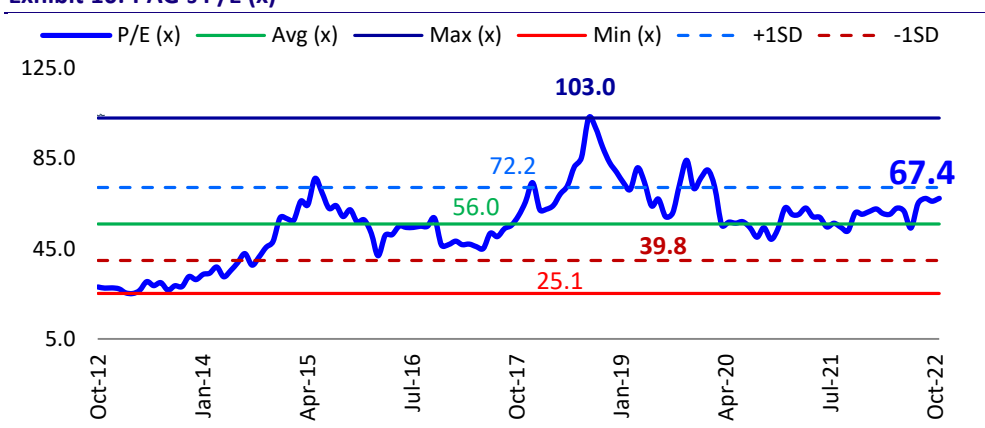
- Changes to the model have led to ~9%/~3% reduction in FY23/FY24 EPS, respectively, because of lower pace of volume growth over a high base and near-term margin pressures. If not for lower tax rate guidance, the adverse impact on EPS would have been higher.
- After a few years of an earnings decline (down 4.3% PBT CAGR over FY18-21), PAG’s performance in FY22 was encouraging on this high base, however, in 2HFY23, earnings growth is likely to be tepid.
- PAG’s medium-term earnings prospects have improved for the better because of investments made in distribution, designs and technology (which has led to significantly lower inventory levels). RoCEs are also likely to sustain at over 50%, having dipped to the late 30s in FY20 and FY21. However, valuations at 61.8x FY24E EPS are rich, leading us to reiterate our **Neutral** rating on the stock with a TP of INR46,750.

Exhibit 9: We decrease our FY23E/FY24E EPS estimates by ~9%/3.3% in view of the beat on our estimates

Particulars (INR m)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	51,177	59,434	52,140	60,560	-1.8	-1.9
EBITDA	10,516	12,793	11,585	13,474	-9.2	-5.1
PAT	7,269	8,820	7,987	9,118	-9.0	-3.3

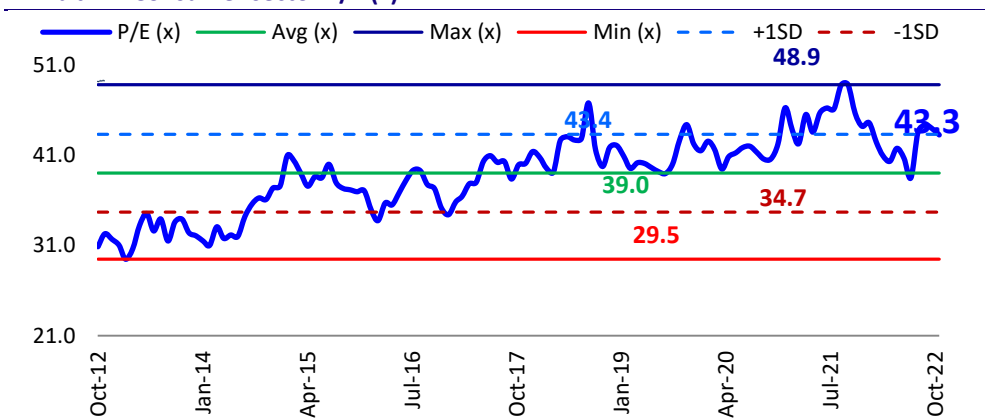
Source: Company, MOFSL

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	51,177	59,434
Change (%)	19.9	11.8	3.3	-3.8	37.2	31.7	16.1
Gross Profit	14,640	16,555	16,346	15,690	21,775	28,864	34,174
Margin (%)	57.4	58.0	55.5	55.4	56.0	56.4	57.5
Other operating expenditure	9,234	10,386	11,020	10,424	13,920	18,348	46,641
EBITDA	5,407	6,169	5,326	5,266	7,855	10,516	12,793
Change (%)	30.8	14.1	-13.7	-1.1	49.2	33.9	21.7
Margin (%)	21.2	21.6	18.1	18.6	20.2	20.5	21.5
Depreciation	280	311	614	629	655	797	1,130
Int. and Fin. Ch.	166	163	339	297	322	352	385
Other Inc.- Rec.	215	364	246	195	210	223	357
PBT	5,175	6,060	4,620	4,534	7,088	9,590	11,635
Change (%)	31.1	17.1	-23.8	-1.9	56.3	35.3	21.3
Tax	1,705	2,121	1,188	1,128	1,722	2,321	2,816
Tax Rate (%)	33.0	35.0	25.7	24.9	24.3	24.2	24.2
Adjusted PAT	3,470	3,939	3,432	3,406	5,365	7,269	8,820
Change (%)	30.3	13.5	-12.9	-0.8	57.5	35.5	21.3
Margin (%)	13.6	13.8	11.7	12.0	13.8	14.2	14.8
Reported PAT	3,470	3,939	3,432	3,406	5,365	7,269	8,820

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	12,380	13,763
Net Worth	8,473	7,750	8,199	8,849	10,886	12,491	13,875
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	13,590	14,974
Gross Block	3,048	3,982	5,364	5,481	6,297	9,797	12,797
Less: Accum. Depn.	669	976	1,309	1,618	2,273	3,069	4,199
Net Fixed Assets	2,379	3,006	4,055	3,863	4,024	6,727	8,598
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	17,108	18,059
Inventory	5,679	7,501	7,186	5,549	9,749	11,497	11,724
Account Receivables	1,480	1,238	738	1,371	1,651	2,384	2,768
Cash and Bank Balance	669	440	1,169	4,350	2,835	887	1,011
Others	1,152	1,247	1,694	1,564	2,122	2,340	2,556
Curr. Liab. and Prov.	4,855	4,783	5,165	6,879	9,084	10,934	12,372
Account Payables	1,363	1,220	938	2,175	3,628	4,206	4,559
Other Liabilities	3,216	3,403	3,953	4,504	5,198	6,166	7,161
Provisions	276	159	273	200	258	561	651
Net Curr. Assets	4,123	5,644	5,622	5,956	7,272	6,174	5,687
Def. Tax Liability	110	125	2	-22	-36	-36	-36
Appl. of Funds	9,158	8,598	9,963	10,119	11,985	13,590	14,974

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	651.7	790.7
Cash EPS	336.2	381.0	362.7	361.8	539.7	723.1	892.0
BV/Share	759.6	694.8	735.1	793.3	976.0	1,119.9	1,243.9
DPS	131	344	161	250	370	508	533
Payout incld DDT (%)	46.8	115.4	79.1	81.9	76.9	77.9	78.9
Valuation (x)							
P/E	157.2	138.4	158.9	160.1	101.6	75.0	61.8
Cash P/E	145.4	128.3	134.8	135.2	90.6	67.6	54.8
EV/Sales	21.3	19.1	18.5	19.1	14.0	10.7	9.2
EV/EBITDA	100.5	88.5	102.5	103.0	69.2	51.9	42.6
P/BV	64.4	70.4	66.5	61.6	50.1	43.7	39.3
Dividend Yield (%)	0.3	0.7	0.3	0.5	0.8	1.0	1.1
Return Ratios (%)							
RoE	41.0	50.8	41.9	38.5	49.3	58.2	63.6
RoCE	42.9	45.6	39.7	36.1	50.7	58.9	63.8
RoIC	55.9	55.2	42.2	49.8	77.9	71.7	69.7
Working Capital Ratios							
Asset Turnover (x)	3.1	3.2	3.2	2.8	3.5	4.0	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	76	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	9,590	11,635
Depreciation	280	311	614	629	655	797	1,130
Other Non Cash & Non operating activities	46	-361	179	304	186	129	28
Incr in WC	690	-1,657	1,024	2,751	-2,910	-849	611
Direct Taxes Paid	-1,645	-2,056	-1,270	-1,259	-1,750	-2,321	-2,816
CF from Operations	4,546	2,297	5,167	6,959	3,269	7,346	10,588
Incr in FA	-565	-374	-744	-135	-979	-3,500	-3,000
Free Cash Flow	3,981	1,923	4,423	6,824	2,290	3,846	7,588
Pur of Investments	-1,872	2,216	400	-3,950	2,050	0	0
Others	338	65	-319	3,967	-1,891	223	357
CF from Invest.	-2,099	1,907	-663	-119	-820	-3,277	-2,643
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	-5,664	-7,436
Others	-359	-163	-589	-551	-617	-352	-385
CF from Fin. Activity	-1,984	-4,433	-3,775	-3,659	-3,964	-6,016	-7,821
Incr/Decr of Cash	463	-228	729	3,181	-1,515	-1,948	124
Add: Opening Balance	206	669	440	1,169	4,350	2,835	887
Closing Balance	669	440	1,169	4,350	2,835	887	1,011

E: MOFSL Estimates

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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