

9 February 2023

## Page Industries

*Margins hit, to improve ahead; upgrading to a Buy*

Page's Q3 FY23 revenue/EBITDA were 4%/21% below our estimates. It attributed the low revenue growth to poor consumer sentiment and ARS implementation, which hurt its primary sales. The EBITDA margin was hit by lower absorption of factory overheads, normalised media spends and high-cost stocks. Ahead, demand per management is still affected. Margins should improve now as its high-cost stocks are almost exhausted. In the past it maintained margins of 20-21% and will now control costs to ensure this continues. To bake in the slower demand, we reduce our FY23e-FY25e sales 2-3%. Our FY23e/FY24e/FY25e EPS are ~15%/14%/12% lower as we expect a slightly lower EBITDA margin. Key monitorables are growth and margins. Core-innerwear growth pace being maintained is a key positive. On the steep stock-price drop, we upgrade our rating to a Buy, with a TP of Rs45,938 (55x FY25e EPS of Rs835).

**Hit by ARS implementation, low absorption cost.** Q3 revenue grew ~3% y/y to Rs12.2bn due to realisation growth as volumes fell ~11% y/y to 52.8m pieces. Secondary sales were more than primary sales, which were hurt by the ARS implementation. The gross margin, incl. other manufacturing expenses, was 37.5% (39.4% a year ago) due to lower absorption of labour & factory overheads and high-cost stocks. EBITDA fell ~23% y/y to Rs1.9bn due to the lower gross margin and normalised ad-spends. The EBITDA margin slid ~530bps y/y to 15.8%. Q4 demand is still challenging, per management, ARS implementation will have some impact. Margins are expected to benefit from lower-cost stocks. Men's innerwear grew in double digits and Bra's did well while athleisure faced sluggish demand.

**Investment in inventory, network continues.** Cash reserves were lower at Rs408m (Rs833m the quarter prior) because of higher inventory at Rs14.9bn (Rs13.6bn the quarter prior). Management said, ahead, inventory would shrink. It will continue to invest in marketing initiatives and network expansion. At end-9M FY23, it was seen in 118,838 MBOs, 1,228 EBOs and 2,967 LFS.

**Valuation.** We upgrade our rating to a Buy, with a TP of Rs45,938 (earlier Rs53,019) 55x FY25e EPS (earlier 56x FY25e P/E). **Risks:** Continuing slowdown, mounting competition, rising raw-material prices.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	28,330	38,865	49,828	58,658	68,418
Net profit (Rs m)	3,406	5,365	6,476	7,692	9,316
EPS (Rs)	305.4	481.0	580.7	689.6	835.2
P/E (x)	124.8	79.2	65.6	55.3	45.6
EV / EBITDA (x)	79.9	53.8	43.6	36.3	29.9
P/BV (x)	48.0	39.1	33.6	28.4	22.5
RoE (%)	40.0	54.4	55.0	55.6	54.9
RoCE (%)	40.0	55.2	56.9	57.4	56.5
Dividend yield (%)	0.7	1.0	0.9	1.0	1.0
Net debt / equity (x)	-0.5	-0.3	-0.2	-0.2	-0.3

Source: Company, Anand Rathi Research

Note: Includes IND AS 116 changes

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Rating: Buy

Target Price: Rs.45,938

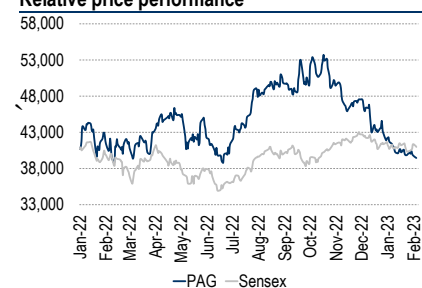
Share Price: Rs.38,120

Key data	PAG IN / PAGE.BO
52-week high / low	Rs54349 / 37651
Sensex / Nifty	60806 / 17893
3-m average volume	\$11.2m
Market cap	Rs423bn / \$5131.1m
Shares outstanding	11m

Shareholding pattern (%)	Dec'22	Sept'22	Jun'22
Promoters	46.1	46.1	46.1
- of which, Pledged	-	-	-
Free float	53.9	53.9	53.9
- Foreign institutions	24.7	25.3	25.2
- Domestic institutions	19.6	19.5	18.2
- Public	9.6	9.1	10.5

Estimates revision (%)	FY23e	FY24e	FY25e
Revenue	(2.0)	(2.9)	(2.9)
EBITDA	(10.5)	(11.1)	(9.0)
EPS	(15.5)	(13.6)	(11.8)

### Relative price performance



Source: Bloomberg

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Research Analyst

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

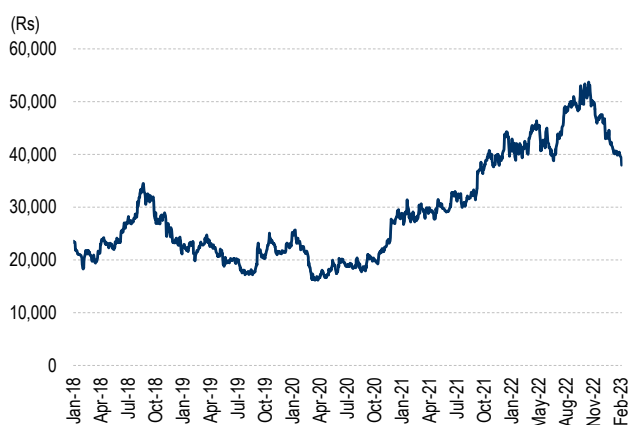
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	28,330	38,865	49,828	58,658	68,418
Growth (%)	-3.8	37.2	28.2	17.7	16.6
Direct costs	12,639	17,090	22,423	26,279	30,241
SG&A	10,424	13,920	17,721	20,769	24,164
<b>EBITDA</b>	<b>5,266</b>	<b>7,855</b>	<b>9,684</b>	<b>11,610</b>	<b>14,013</b>
EBITDA margins (%)	18.6	20.2	19.4	19.8	20.5
Depreciation	629	655	801	1,006	1,210
Other income	195	210	100	117	137
Interest expenses	297	322	399	442	490
PBT	4,534	7,088	8,583	10,279	12,450
Effective tax rate (%)	24.9	24.3	24.5	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,406	5,365	6,476	7,692	9,316
Adjusted income	3,406	5,365	6,476	7,692	9,316
WANS	11.2	11.2	11.2	11.2	11.2
FDEPS (Rs / sh)	305.4	481.0	580.7	689.6	835.2
FDEPS growth (%)	-0.8	57.5	20.7	18.8	21.1
Gross margins (%)	55.4	56.0	55.0	55.2	55.8

Note: Includes IND AS 116 changes

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (adj. for int. exp / other inc.)	4,726	7,280	8,983	10,722	12,940
+ Non-cash items	742	650	801	1,006	1,210
Oper. prof. before WC	5,468	7,930	9,784	11,727	14,150
- Incr. / (decr.) in WC	-2,751	2,910	-409	-83	100
Others incl. taxes	1,259	1,750	2,107	2,587	3,134
Operating cash-flow	6,959	3,270	8,086	9,223	10,916
- Capex (tang. + intang.)	135	980	2,528	2,521	2,513
Free cash-flow	6,824	2,291	5,558	6,702	8,403
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	2,787	3,347	4,699	5,370	5,370
+ Equity raised	-	-	-	-	-
+ Debt raised	-321	-	-	-	-
- Fin investments	3,950	6,859	-	-	-
- Misc. (CFI + CFF)	476	-8,410	693	736	783
Net cash-flow	-711	494	167	597	2,249

Source: Company, Anand Rathi Research Note: Includes IND AS 116 changes

**Fig 5 – Price movement**


Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

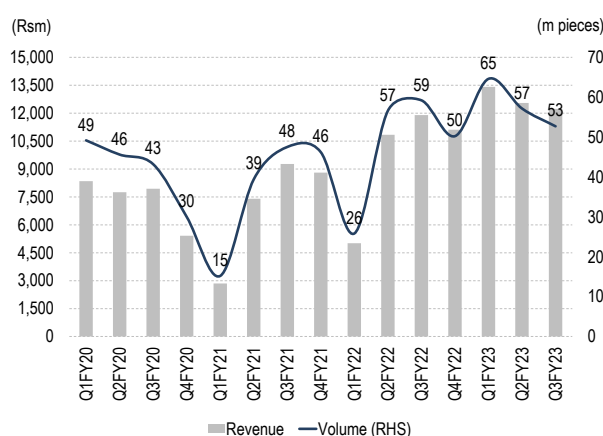
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	112	112	112	112	112
Net worth	8,849	10,886	12,664	14,986	18,932
Debt	0	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets) *	1,270	1,099	1,099	1,099	1,099
<b>Capital employed</b>	<b>10,119</b>	<b>11,985</b>	<b>13,763</b>	<b>16,085</b>	<b>20,031</b>
Net tangible assets**	3,840	4,004	5,997	7,785	9,369
Net intangible assets	23	20	48	68	81
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	279	653	653	653	653
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	8,507	13,558	15,600	17,561	19,921
Cash	4,350	2,835	3,001	3,598	5,847
Current liabilities	6,879	9,084	11,535	13,579	15,839
Working capital	1,628	4,474	4,065	3,981	4,082
<b>Capital deployed</b>	<b>10,119</b>	<b>11,985</b>	<b>13,763</b>	<b>16,085</b>	<b>20,031</b>

Note: Includes IND AS 116 changes \* includes lease liabilities, \*\* includes RoU

**Fig 4 – Ratio analysis**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	124.8	79.2	65.6	55.3	45.6
EV / EBITDA (x)	79.9	53.8	43.6	36.3	29.9
EV / Sales (x)	14.9	10.9	8.5	7.2	6.1
P/B (x)	48.0	39.1	33.6	28.4	22.5
RoE (%)	40.0	54.4	55.0	55.6	54.9
RoCE (%) - after tax	40.0	55.2	56.9	57.4	56.5
ROIC (%) - after tax	26.2	35.3	33.1	32.8	34.2
DPS (Rs / sh)	250.0	370.0	350.0	400.0	400.0
Dividend yield (%)	0.7	1.0	0.9	1.0	1.0
Dividend payout (%) - incl. DDT	81.9	62.4	72.6	69.8	57.6
Net debt / equity (x)	-0.5	-0.3	-0.2	-0.2	-0.3
Receivables (days)	18	16	14	14	14
Inventory (days)	71	92	80	75	72
Payables (days)	28	34	34	34	34
CFO : PAT %	204.3	61.0	124.9	119.9	117.2

Source: Company, Anand Rathi Research Note: Includes IND AS 116 changes

**Fig 6 – Quarterly revenue and volume trends**


Source: Company

## Q3 FY23 Result Highlights

Page reported ~3% y/y revenue growth to Rs12.2bn (down ~3% q/q). The gross margin (only COGS) contracted ~90bps y/y, ~340bps q/q, to 52.4%. Employee/other expenses were up ~13%/21% y/y. EBITDA was down ~23% y/y to Rs1.9bn. The EBITDA margin contracted ~530bps y/y, ~320bps q/q, to 15.8%. Interest/depreciation expense were up ~29%/20% y/y while other income was down ~77% y/y to Rs16m. PBT declined ~30% y/y to Rs1.6bn. The tax rate was 24.8% (25.2% a year ago). PAT was down ~29% y/y, ~24% q/q, to Rs1.2bn.

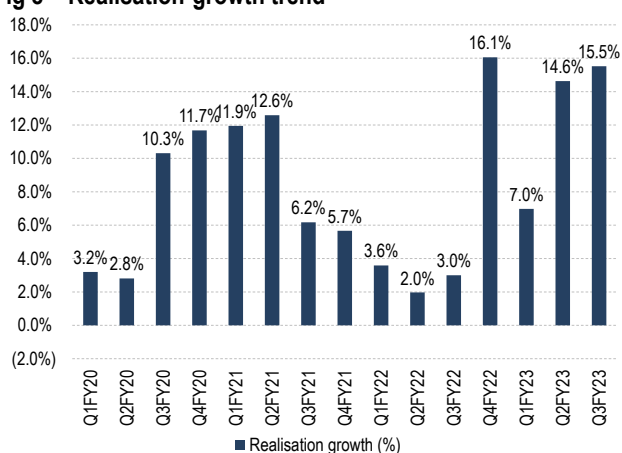
For 9M FY23, revenue grew ~38% y/y to Rs38.2bn. The gross margin contracted ~40bps y/y to 54.2%. EBITDA grew ~41% y/y to Rs7.3bn and the EBITDA margin expanded ~40bps y/y to 19.1%. PAT grew ~43% y/y to Rs4.9bn.

**Fig 7 – Financials**

(Rs m)	Q3 FY23	Q3 FY22	% Y/Y	Q2 FY23	% Q/Q	9M FY23	9M FY22	% Y/Y
Sales	12,233	11,898	2.8	12,550	-2.5	38,195	27,754	37.6
Gross margins (%)	52.4	53.2	-86bps	55.8	-339bps	54.2	54.7	-42bps
EBITDA	1,928	2,507	-23.1	2,379	-19.0	7,284	5,184	40.5
EBITDA margins (%)	15.8	21.1	-532bps	19.0	-319bps	19.1	18.7	39bps
Interest	100	77	28.8	92	8.7	277	225	22.8
Depreciation	200	167	19.5	188	6.1	568	491	15.6
Other income	16	71	-77.0	27	-38.6	76	161	-52.6
PBT	1,645	2,334	-29.5	2,125	-22.6	6,516	4,628	40.8
Tax	407	589	-30.8	504	-19.2	1,587	1,168	35.9
Tax rates (%)	24.8	25.2	-45bps	23.7	105bps	24.4	25.2	-88bps
PAT	1,237	1,746	-29.1	1,621	-23.7	4,929	3,460	42.5
EPS (Rs)	110.94	156.52	-29.1	145.35	-23.7	441.91	310.22	42.4

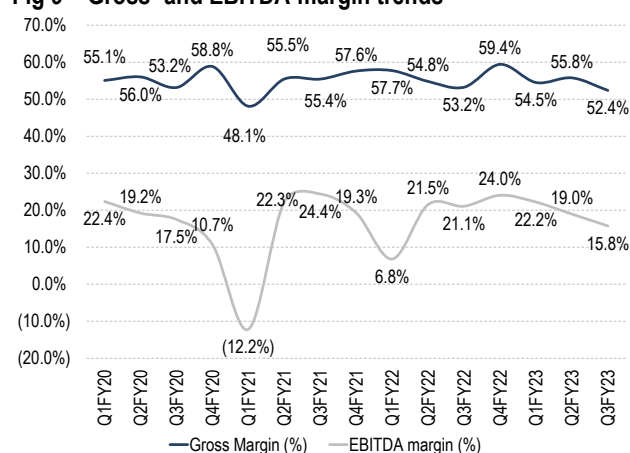
Source: Company

**Fig 8 – Realisation-growth trend**



Source: Company

**Fig 9 – Gross- and EBITDA-margin trends**



Source: Company

## Other highlights

- **Margin.** The margin this quarter was bruised by the lower absorption of factory overheads, normalised media spends and high-cost stocks. Management expects margins to improve from next quarter as high-cost stocks have almost been exhausted. Stock bought at lower prices should flow in from Q4 and the benefits should then start. Ad-spends were higher in Q3 FY23 and management plans to return them to ~4% of sales, in line with its pre-Covid range.
- **ARS implementation.** Management is continuing the ARS implementation (halted due to Covid-19) across all product verticals to optimise inventory. This would improve the RoI of channel partners and order fulfilment for retailers. 9M FY23 sales are in line with retail expansion but primary sales were impacted in the quarter due to the ARS implementation. However, secondary sales were not hurt to the same extent. 7m pieces of excess stock were cleaned from the system, which affected primary sales in the short term. The ARS process roll-out was paused during Covid due to shortages and supply-chain issues, which led to channel-partner imbalances.
- **Product wise growth.** Men's innerwear saw double-digit growth despite weak consumer sentiment in the quarter. The bra category also did well despite having a higher ASP. Athleisure saw a slowdown in Q3 FY23 but decent growth in 9M FY23. Management expects huge headroom for growth in the women's, kids and athleisure segment. It is looking at accelerated growth in the outerwear and bra categories in FY24.
- **Raw material price hike.** The company hiked prices 8% in Dec'21 to factor in high raw-material prices. It did not raise prices in Q3 FY23 and has no plans of immediate price intervention. A further drop in raw material prices might lead to management raising prices a little than its normal 3-5% every year.
- **Inventory.** The company ended Q3 FY23 with the highest level of inventory at Rs14.9bn (Rs13.6bn the prior quarter). The inventory period doubled to 3.5 months from last year. Management struggled to meet demand in Q3 FY22 as sales were high due to expected GST rate-hike in Jan'22. Q3 FY23 was hit by stock purchased at high raw-material prices, which would be exhausted in Q4. Per management, stocks would go down q/q to past levels of ~2.5 months.
- **Cash reserves.** The company's nine-month opex is in line with its past 23% average. Cash and equivalents were lower at Rs408m (Rs833m the prior quarter) due to higher inventory. Net working capital was Rs8bn (Rs7.9bn the prior quarter).

## Change in estimates

To bake in slower demand, we reduce our FY23e-FY25e sales 2%-3%. Our FY23e/FY24e/FY25e EPS are ~15%/14%/12% lower as we expect a slightly lower EBITDA margin. We expect the company to report 19.4%/19.8%/20.5% EBITDA margins in FY23/FY24/FY25.

**Fig 10 – Change in estimates**

(Rs m)	Old			Revised			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Revenue	50,835	60,397	70,447	49,828	58,658	68,418	(2.0)	(2.9)	(2.9)
EBITDA	10,824	13,054	15,399	9,684	11,610	14,013	(10.5)	(11.1)	(9.0)
PAT	7,660	8,905	10,560	6,476	7,692	9,316	(15.5)	(13.6)	(11.8)
EPS (Rs)	686.8	798.4	946.8	580.7	689.6	835.2	(15.5)	(13.6)	(11.8)

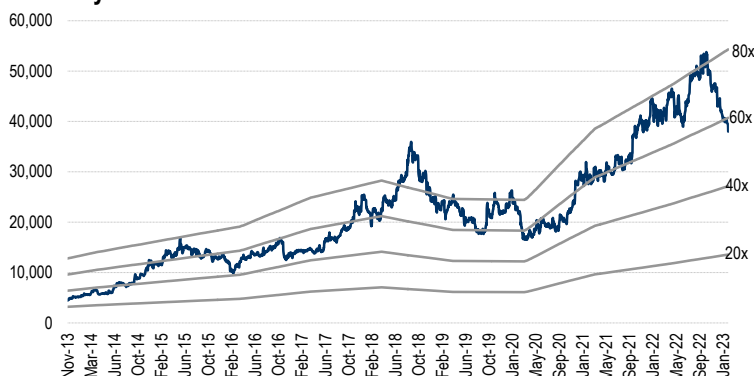
Source: Anand Rathi Research

## Valuation

We upgrade our rating to a Buy, with a revised target price of Rs45,938 (earlier Rs53,019) based on 55x FY25e EPS of Rs835 (earlier 56x FY25e P/E).

At 55x FY25e EPS, our target multiple is above the consumer-products universe on account of the company's brighter growth prospects, better cash-flows and working-capital management.

**Fig 11 – One-year-forward P/E**



Source: Bloomberg, Anand Rathi Research

**Fig 12 – Valuation parameters**

	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	124.8	79.2	65.6	55.3	45.6
EV / EBITDA (x)	79.9	53.8	43.6	36.3	29.9
EV / Sales (x)	14.9	10.9	8.5	7.2	6.1
RoE (%)	40.0	54.4	55.0	55.6	54.9
RoCE (%)	40.0	55.2	56.9	57.4	56.5

Source: Anand Rathi Research

### Key risks

**Continuing slowdown.** The protracted economic slowdown led to consumer hesitancy regarding discretionary spending. That could result in sluggish demand.

**Mounting competition.** Keener competition from international and domestic brands could affect the company's performance. It could lose market share because of heightened competition from the formal and informal markets.

**Rise in raw-material prices.** The business could be hurt by adverse raw-material price movements.

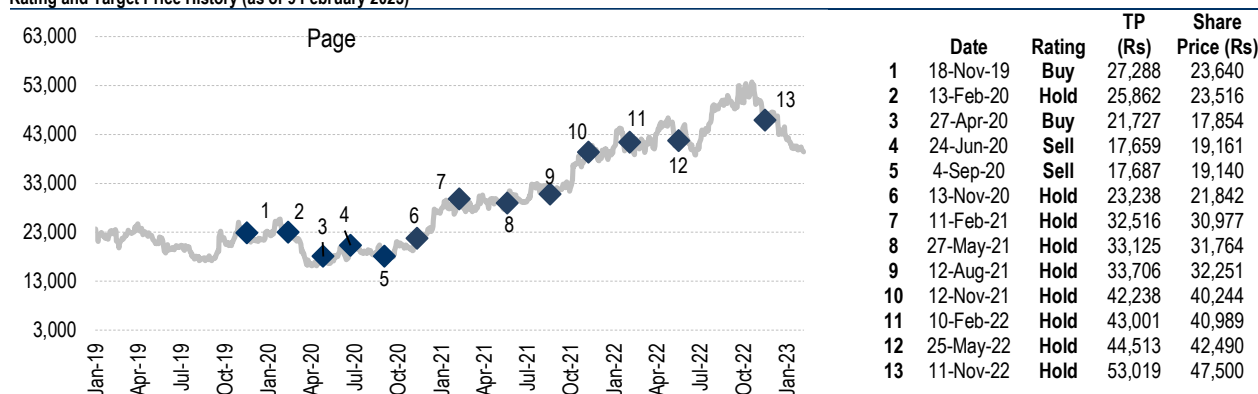
## Appendix

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