Motilal Oswal Investment Services

10 February 2023
3QFY23 Results Update | Sector: Consumer

Page Industries

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	423.7 / 5.1
52-Week Range (INR)	54262 / 37651
1, 6, 12 Rel. Per (%)	-7/-24/-13
12M Avg Val (INR M)	971

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
Sales	48.8	54.6	63.2
Sales Gr. (%)	25.6	12.0	15.7
EBITDA	9.0	10.6	13.2
EBITDA Margin (%)	18.5	19.4	20.8
Adj. PAT	6.0	7.0	8.8
Adj. EPS (INR)	540.4	630.2	787.0
EPS Gr. (%)	12.3	16.6	24.9
BV/Sh.INR	1095.3	1194.2	1309.2
Ratios			
RoE (%)	49.3	52.8	60.1
RoCE (%)	49.9	52.8	60.2
Payout (%)	77.9	78.9	79.9
Valuations			
P/E (x)	70.3	60.3	48.3
P/BV (x)	34.7	31.8	29.0
EV/EBITDA (x)	46.9	40.0	32.3
Div. Yield (%)	1.1	1.1	1.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	46.1	46.1	47.2
DII	19.0	19.5	18.0
FII	25.3	25.3	25.1
Others	9.6	9.1	9.8

FII Includes depository receipts

CMP: INR37,991 TP: INR35,400 (-7%) Neutral

Disappointing results, recovery unclear for now

- PAG declared a weak set of numbers in its 3QFY23 results. Volume declined 11% YoY, while sales were flat after eight consecutive quarters of double-digit growth. EBITDA margin of 15.8% was the lowest in a non-Covid-hit quarter for over a decade, affected by the lack of fixed cost absorption because of volume decline and the consumption of high-cost inventory during the quarter.
- The management indicated that double-digit sales growth was witnessed in men's innerwear in 3QFY23, which implied that the rest of the portfolio might have seen a mid-single digit sales decline. We believe the high base of athleisure and mask sales will adversely affect 4QFY23 as well.
- While material consumption costs are likely to ease going forward, recovery to double-digit sales growth appears uncertain in the near term, especially as competitive intensity has increased after being low during the Covid period. **Maintain Neutral on the stock.**

Weak topline growth leads to substantial miss on EBITDA

- PAG's sales remained flat YoY at INR12,233m (est. INR13,207m) in 3QFY23.
- EBITDA declined 23.1% YoY/19% QoQ to INR1,928m (est. INR2,509m). PBT decreased 29.5% YoY/22.6% QoQ to INR1,645m (est. INR2,274m).
- Adj. PAT fell 29.1% YoY/ 23.7% QoQ to INR1,237m (est. INR1,728m).
- Gross margin contracted ~80bp YoY/~340bp QoQ to 52.4% (est. 56%).
- As a percentage of sales, higher employee expenses (+160bp YoY to 17.6%) and other expenses (+290bp YoY to 18.5%) led to an EBITDA margin contraction of ~530bp YoY to 15.8% (est. 19%).
- 9MFY23 sales/EBITDA/adj. PAT rose 37.6%/40.5%/42.5% YoY to INR38.2b/ INR7.3b/INR4.9b.

Highlights from the management commentary

- Demand was lukewarm and management expects it to recover by 1QFY24.
- Competitive intensity has increased after the Covid period. Many players have entered the athleisure category.
- PAG added 37 EBOs in 3QFY23, expanding its footprint to 415+ cities. There are total 1,228+ EBOs with 48/76 exclusive for woman/children.
- Gross margin was hit by high-cost inventory and lower absorption of factory overheads of ~2.9%. Most of the high-cost inventory is consumed and the benefits of low-cost inventory will flow through from 4QFY23 onwards.
- PAG is normalizing ad-spends to the pre-Covid level of ~4% of sales. A good share of ad-spends of 9MFY23 was invested in 3QFY23.

Valuation and view

- Changes to our model have led to a ~13% reduction in FY23E/FY24E EPS, because of a huge miss in 3QFY24 results, lower sales growth ahead and a gradual recovery in operating margins.

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- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), PAG's performance in FY22 was encouraging with strong 57.5% EPS growth YoY. This seems to have petered out to a sedate growth of ~12% in FY23E. If demand recovers in the next six months, we believe that the company can still grow its earnings at ~20% over the next two years.
- PAG's medium-term earnings prospects have improved because of investments made in distribution, designs, and technology (which led to significantly lower inventory levels barring the temporary spike in 3QFY23). RoCE is also likely to be sustained at over 50%, having dipped to the late 30s in FY20 and FY21. However, the valuation at 48.3x FY25E EPS is expensive, leading us to reiterate our Neutral rating on the stock with a TP of INR35,400.

Quarterly Performance (INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	**5,015**	**10,840**	**11,898**	**11,111**	**13,413**	**12,550**	**12,233**	**10,607**	**38,865**	**48,803**	**13,207**	**-7.4%**
YoY change (%)	76.1	46.4	28.3	26.2	167.4	15.8	2.8	-4.5	37.2	25.6	11.0	
Gross Profit	**2,895**	**5,941**	**6,335**	**6,603**	**7,311**	**6,999**	**6,408**	**5,781**	**21,775**	**26,500**	**7,396**	**-13.4%**
Gross margin (%)	57.7	54.8	53.2	59.4	54.5	55.8	52.4	54.5	56.0	54.3	56.0	
EBITDA	**342**	**2,334**	**2,507**	**2,671**	**2,978**	**2,379**	**1,928**	**1,752**	**7,855**	**9,037**	**2,509**	**-23.2%**
Margins (%)	6.8	21.5	21.1	24.0	22.2	19.0	15.8	16.5	20.2	18.5	19.0	
YoY change	L/P	41.2	10.9	57.3	770.7	1.9	-23.1	-34.4	49.2	15.0	0.1	
Depreciation	159	165	167	164	180	188	200	215	655	783	204	
Interest	73	74	77	97	85	92	100	100	322	377	89	
Other Income	36	54	71	49	33	27	16	31	210	107	57	
PBT	**145**	**2,148**	**2,334**	**2,460**	**2,746**	**2,125**	**1,645**	**1,468**	**7,088**	**7,984**	**2,274**	**-27.7%**
Tax	36	543	589	555	675	504	407	369	1,722	1,956	546	
Rate (%)	24.6	25.3	25.2	22.6	24.6	23.7	24.8	25.2	24.3	24.5	24.0	
PAT	**109**	**1,605**	**1,746**	**1,905**	**2,070**	**1,621**	**1,237**	**1,099**	**5,365**	**6,028**	**1,728**	**-28.4%**
YoY change (%)	L/P	44.8	13.6	64.9	1,790.9	1.0	-29.1	-42.3	57.5	12.3	-1.0	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY22				FY23		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Volume growth (%)	70.0	43.0	24.0	7.0	150.0	1.0	-11.0
Realisation growth (%)	6.1	3.4	4.3	19.2	17.4	14.8	13.8
2Y CAGR (%)							
Volume (2Y average)	0.5	14.7	17.0	30.5	110.0	22.0	6.5
Sales	-22.5	18.2	22.4	43.3	117.0	30.2	14.9
EBITDA	-57.2	25.1	34.4	114.4	LP	19.9	-7.7
PAT	-68.5	18.4	41.6	147.8	LP	20.9	-10.3
% of Sales							
COGS	42.3	45.2	46.8	40.6	45.5	44.2	47.6
Employee Expenses	30.4	16.3	16.0	18.1	16.1	18.3	17.6
Other Expenses	20.5	17.0	16.2	17.3	16.2	18.5	19.1
Depreciation	3.2	1.5	1.4	1.5	1.3	1.5	1.6
YoY change (%)							
COGS	43.4	48.6	34.7	20.8	187.8	13.3	4.7
Employee Expenses	24.3	36.1	30.0	21.7	41.4	30.1	13.0
Other Expenses	110.1	59.5	36.1	11.5	111.8	26.1	21.0
Other Income	-41.2	44.3	71.9	-11.3	-7.4	-50.1	-77.0
EBIT	-136.1	44.9	11.2	62.6	1,428.4	1.0	-26.2

Highlights from management interaction

Performance and demand environment

- The market was not as buoyant as expected by management. The demand was lukewarm and management expects it to recover by 1QFY24.
- Not experiencing any slowdown in the premium customer segment.
- Volume declined 11% YoY/7% QoQ in 3QFY23 to 52.8m. 9MFY23 volume stood at 172.4m. The pain was more in MBOs compared to EBOs.
- Primary sales declined but secondary sales were not affected much.
- The base quarter was strong because of the anticipation of an increase in GST.
- Men's innerwear grew in double digits and bras showed good growth (albeit softer than usual). Athleisure did well on 9MFY23 basis (in line with internal expectations).
- Competitive intensity has increased after the Covid period. Many players have entered the athleisure category.
- The response from tier 2/3 cities has been good for women's innerwear, as per management's expectation.

Distribution channels and supply chain

- At present the retail network stands at 118,838.
- Total 715/8,290 MBOs added in 3QFY23/9MFY23.
- PAG added 37 EBOs in 3QFY23, expanding its footprint to 415+ cities. There are total 1,228+ EBOs with 48/76 exclusive for woman/children.
- LFS is now present with 24 partners in 2,967+ stores.
- PAG will not be slow down the expansion of stores.
- ARS is implemented across most of the portfolio and the rest of it will be completed soon. Hence, the primary sales will be hit in 4QFY23.
- 150 distributors completely and exclusively focus on rural towns.

Costs and margins

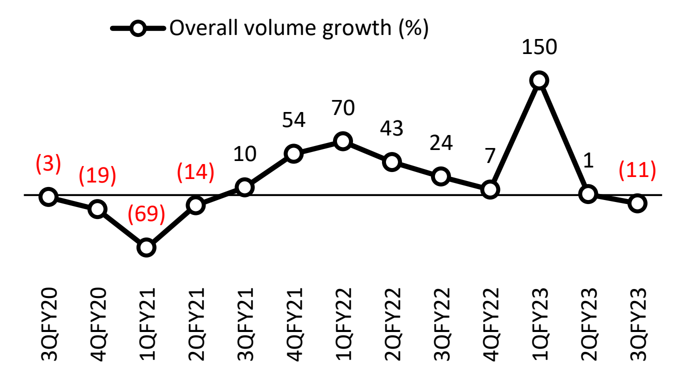
- Margin was hurt by high-cost inventory and lower absorption of factory overheads of ~2.9%. Most of the high-cost inventory is consumed and the benefits of low-cost inventory will flow through from 4QFY23 onwards.
- They are normalizing the ad-spends to the pre-Covid level of ~4% of sales. A good share of ad-spends of 9MFY23 was invested in 3QFY23.
- 9MFY23 opex is at its historical level of ~23% of revenue.
- As of now, price hikes are not on the cards.
- This is more or less the bottom of margin; however, it will depend on growth too.

Other points

- When the Odisha plant commences, it will start in a single shift and can switch to double shifts as and when required. Men's innerwear products will be manufactured at this factory.
- Cash has come down due to higher investment in inventory.
- Currently, PAG has 3.5 months of inventory compared to a half of it YoY. It will come down going ahead to normal levels of ~2.5 months.
- In international operations, management is putting more efforts into the Middle East, as other countries are witnessing an economic slowdown.

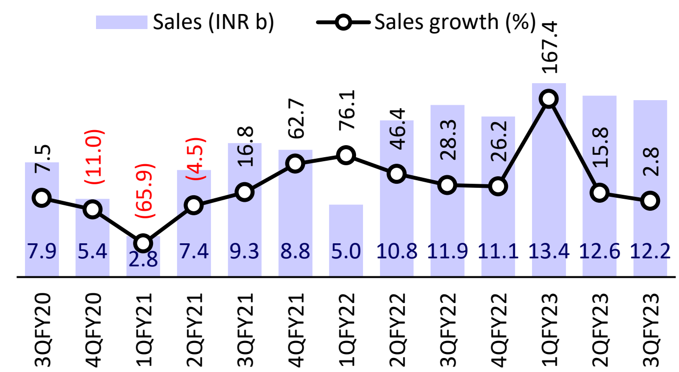
Key exhibits

Exhibit 1: Total volumes declined 11% YoY on high base



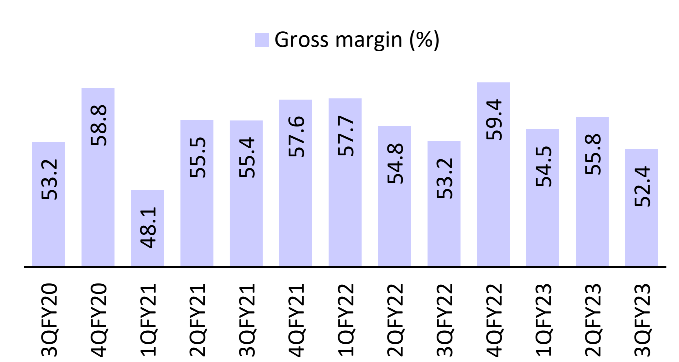
Source: Company, MOFSL

Exhibit 2: Sales remained flat YoY at INR12.2b



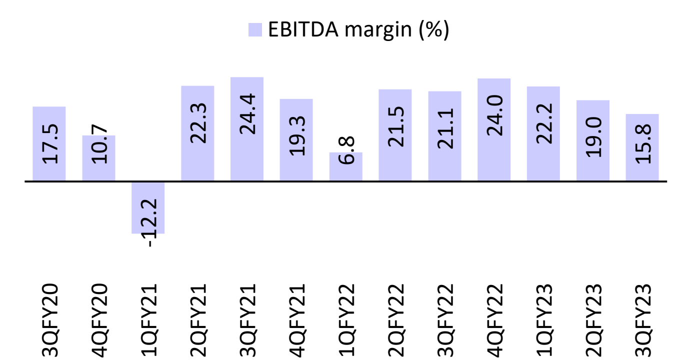
Source: Company, MOFSL

Exhibit 3: Gross margin contracted ~80bp YoY to 52.4%



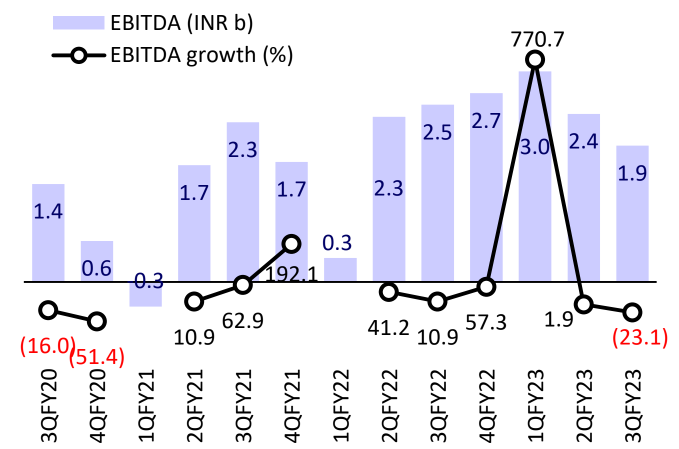
Source: Company, MOFSL

Exhibit 4: EBITDA margin down 530bp YoY at 15.8%



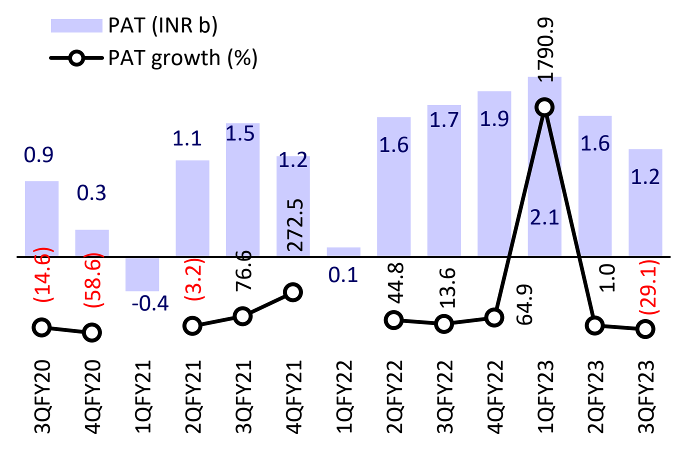
Source: Company, MOFSL

Exhibit 5: EBITDA declined 23.1% YoY to INR1.9b



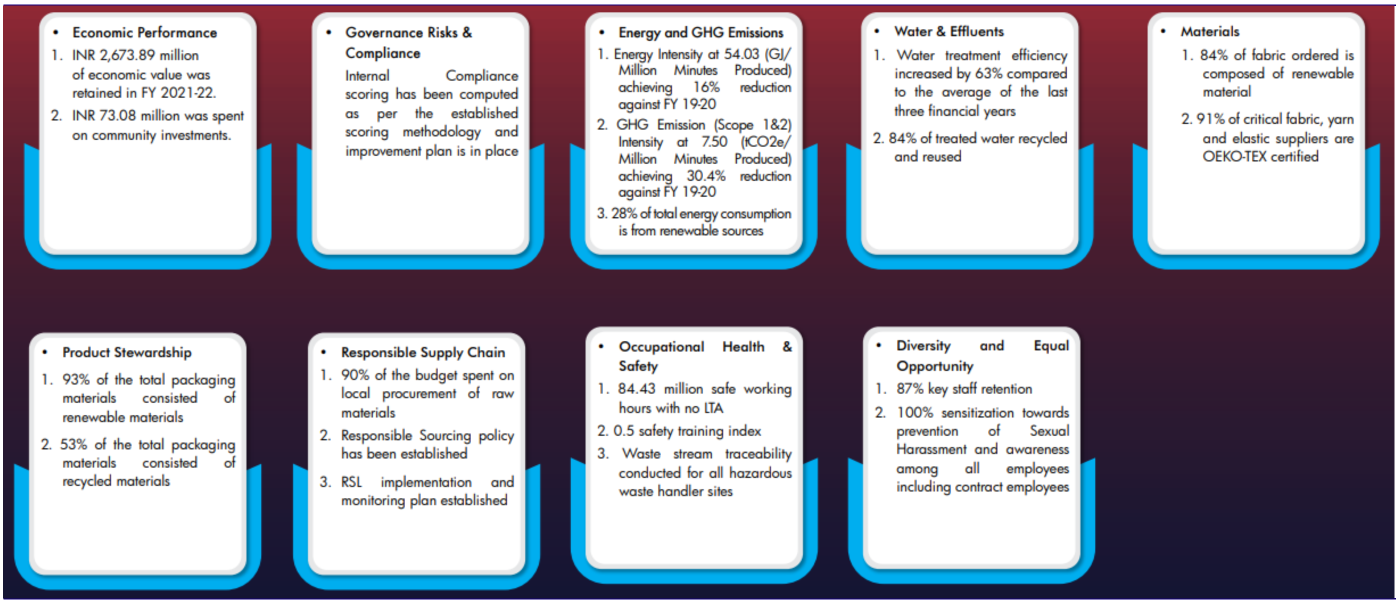
Source: Company, MOFSL

Exhibit 6: Adj. PAT declined 29.1% YoY to INR1.2b



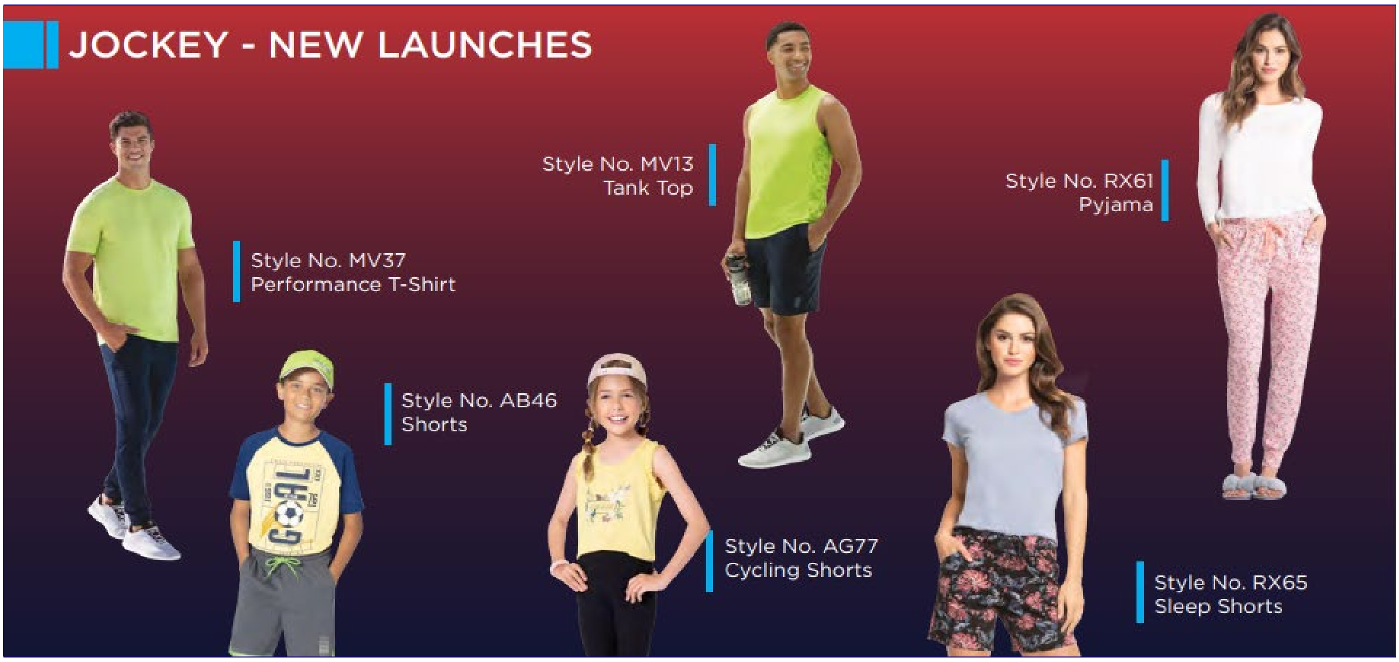
Source: Company, MOFSL

Exhibit 7: Sustainability focus areas



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 1) single-minded focus on topline

growth, 2) the ability to manage a large labor force, 3) design strength, 4) the successful rollout of outsourcing, 5) effective branding, 6) premiumization with a value-for-money proposition, and 7) the rapid expansion of EBO stores, facilitating cross-selling.

Our view on the stock

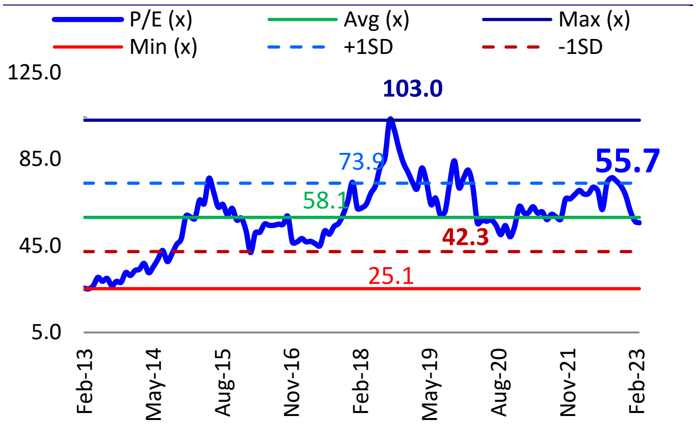
- Changes to our model have led to a ~13% reduction in FY23E/FY24E EPS, because of a huge miss in 3QFY24 results, lower sales growth ahead and a gradual recovery in operating margins.
- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), PAG's performance in FY22 was encouraging with strong 57.5% EPS growth YoY. This seems to have petered out to a sedate growth of ~12% in FY23E. If demand recovers in the next six months, we believe that the company can still grow its earnings at ~20% over the next two years.
- PAG's medium-term earnings prospects have improved because of investments made in distribution, designs, and technology (which has led to significantly lower inventory levels barring the temporary spike in 3QFY23). RoCE is also likely to be sustained at over 50%, having dipped to the late 30s in FY20 and FY21. However, the valuation at 48.3x FY25E EPS is expensive, leading us to reiterate our Neutral rating on the stock with a TP of INR35,400.

Exhibit 9: We cut our FY23E/FY24E/FY25E EPS estimates by 13.5%/13.4%/8.8%

INR m	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	48,803	54,650	63,211	50,310	57,199	66,100	-3.0	-4.5	-4.4
EBITDA	9,037	10,609	13,160	10,122	11,883	14,123	-10.7	-10.7	-6.8
PAT	6,028	7,029	8,779	6,968	8,119	9,631	-13.5	-13.4	-8.8

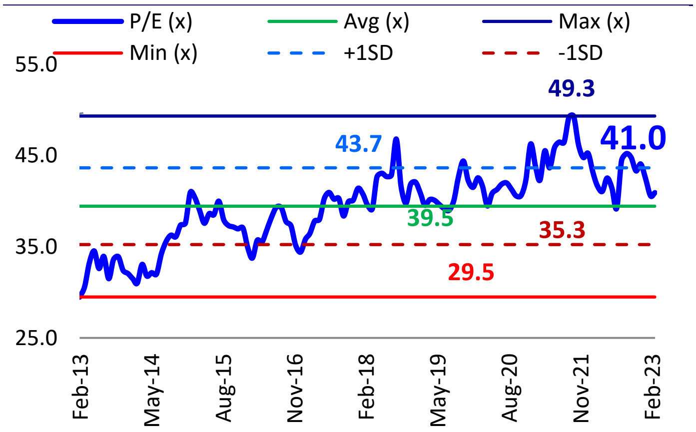
Source: Company, MOFSL

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**	**2025E**
Net Sales	**25,514**	**28,522**	**29,454**	**28,330**	**38,865**	**48,803**	**54,650**	**63,211**
Change (%)	19.9	11.8	3.3	-3.8	37.2	25.6	12.0	15.7
Gross Profit	**14,640**	**16,555**	**16,346**	**15,690**	**21,775**	**26,500**	**30,331**	**36,030**
Margin (%)	57.4	58.0	55.5	55.4	56.0	54.3	55.5	57.0
Other operating expenditure	9,234	10,386	11,020	10,424	13,920	17,463	19,722	22,871
EBITDA	**5,407**	**6,169**	**5,326**	**5,266**	**7,855**	**9,037**	**10,609**	**13,160**
Change (%)	30.8	14.1	-13.7	-1.1	49.2	15.0	17.4	24.0
Margin (%)	21.2	21.6	18.1	18.6	20.2	18.5	19.4	20.8
Depreciation	280	311	614	629	655	783	1,096	1,387
Int. and Fin. Ch.	166	163	339	297	322	377	385	385
Other Inc.- Rec.	215	364	246	195	210	107	219	348
PBT	**5,175**	**6,060**	**4,620**	**4,534**	**7,088**	**7,984**	**9,347**	**11,736**
Change (%)	31.1	17.1	-23.8	-1.9	56.3	12.6	17.1	25.6
Tax	1,705	2,121	1,188	1,128	1,722	1,956	2,318	2,957
Tax Rate (%)	33.0	35.0	25.7	24.9	24.3	24.5	24.8	25.2
Adjusted PAT	**3,470**	**3,939**	**3,432**	**3,406**	**5,365**	**6,028**	**7,029**	**8,779**
Change (%)	30.3	13.5	-12.9	-0.8	57.5	12.3	16.6	24.9
Margin (%)	13.6	13.8	11.7	12.0	13.8	12.4	12.9	13.9
Reported PAT	**3,470**	**3,939**	**3,432**	**3,406**	**5,365**	**6,028**	**7,029**	**8,779**

Balance Sheet								(INR m)
Y/E March	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Share Capital	112	112	112	112	112	112	112	112
Reserves	8,361	7,638	8,087	8,737	10,775	12,106	13,208	14,491
Net Worth	**8,473**	**7,750**	**8,199**	**8,849**	**10,886**	**12,217**	**13,320**	**14,603**
Loans	685	848	1,764	1,270	1,099	1,099	1,099	1,099
Capital Employed	**9,158**	**8,598**	**9,963**	**10,119**	**11,985**	**13,316**	**14,419**	**15,702**
Gross Block	3,048	3,982	5,364	5,481	6,297	9,797	12,797	15,797
Less: Accum. Depn.	669	976	1,309	1,618	2,273	3,056	4,152	5,538
Net Fixed Assets	**2,379**	**3,006**	**4,055**	**3,863**	**4,024**	**6,741**	**8,645**	**10,259**
Capital WIP	585	72	287	279	653	653	653	653
Investments	2,180	0	0	0	0	0	0	0
Curr. Assets, L&A	**8,979**	**10,427**	**10,787**	**12,835**	**16,356**	**16,313**	**16,461**	**17,913**
Inventory	5,679	7,501	7,186	5,549	9,749	10,964	10,780	12,469
Account Receivables	1,480	1,238	738	1,371	1,651	2,273	2,545	2,944
Cash and Bank Balance	669	440	1,169	4,350	2,835	798	705	145
Others	1,152	1,247	1,694	1,564	2,122	2,278	2,431	2,355
Curr. Liab. and Prov.	**4,855**	**4,783**	**5,165**	**6,879**	**9,084**	**10,426**	**11,376**	**13,158**
Account Payables	1,363	1,220	938	2,175	3,628	4,011	4,192	4,849
Other Liabilities	3,216	3,403	3,953	4,504	5,198	5,880	6,585	7,617
Provisions	276	159	273	200	258	535	599	693
Net Curr. Assets	**4,123**	**5,644**	**5,622**	**5,956**	**7,272**	**5,886**	**5,085**	**4,754**
Def. Tax Liability	110	125	2	-22	-36	-36	-36	-36
Appl. of Funds	**9,158**	**8,598**	**9,963**	**10,119**	**11,985**	**13,316**	**14,419**	**15,702**

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Basic (INR)								
EPS	**311.1**	**353.2**	**307.7**	**305.3**	**481.0**	**540.4**	**630.2**	**787.0**
Cash EPS	336.2	381.0	362.7	361.8	539.7	610.6	728.4	911.4
BV/Share	759.6	694.8	735.1	793.3	976.0	1,095.3	1,194.2	1,309.2
DPS	131	344	161	250	370	421	425	538
Payout incldg DDT (%)	46.8	115.4	79.1	81.9	76.9	77.9	78.9	79.9
Valuation (x)								
P/E	122.1	107.6	123.5	124.4	79.0	70.3	60.3	48.3
Cash P/E	113.0	99.7	104.7	105.0	70.4	62.2	52.2	41.7
EV/Sales	16.5	14.9	14.4	14.8	10.9	8.7	7.8	6.7
EV/EBITDA	78.0	68.8	79.7	79.9	53.7	46.9	40.0	32.3
P/BV	50.0	54.7	51.7	47.9	38.9	34.7	31.8	29.0
Dividend Yield (%)	0.3	0.9	0.4	0.7	1.0	1.1	1.1	1.4
Return Ratios (%)								
RoE	41.0	50.8	41.9	38.5	49.3	49.3	52.8	60.1
RoCE	42.9	45.6	39.7	36.1	50.7	49.9	52.8	60.2
RoIC	55.9	55.2	42.2	49.8	77.9	61.2	57.4	63.0
Working Capital Ratios								
Asset Turnover (x)	3.1	3.2	3.2	2.8	3.5	3.9	3.9	4.2
Debtor Days	19	17	12	14	14	15	16	16
Creditor Days	18	17	13	20	27	29	27	26
Inventory Days	85	84	91	82	72	77	73	67
Leverage Ratio								
Debt/Equity (x)	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement								(INR m)
Y/E March	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Profit before Tax	5,175	6,060	4,620	4,534	7,088	7,984	9,347	11,736
Depreciation	280	311	614	629	655	783	1,096	1,387
Other Non Cash & Non operating activities	46	-361	179	304	186	270	166	37
Incr in WC	690	-1,657	1,024	2,751	-2,910	-650	708	-230
Direct Taxes Paid	-1,645	-2,056	-1,270	-1,259	-1,750	-1,956	-2,318	-2,957
CF from Operations	**4,546**	**2,297**	**5,167**	**6,959**	**3,269**	**6,430**	**8,999**	**9,973**
Incr in FA	-565	-374	-744	-135	-979	-3,500	-3,000	-3,000
Free Cash Flow	**3,981**	**1,923**	**4,423**	**6,824**	**2,290**	**2,930**	**5,999**	**6,973**
Pur of Investments	-1,872	2,216	400	-3,950	2,050	0	0	0
Others	338	65	-319	3,967	-1,891	107	219	348
CF from Invest.	**-2,099**	**1,907**	**-663**	**-119**	**-820**	**-3,393**	**-2,781**	**-2,652**
Issue of Shares	0	0	0	0	0	0	0	0
Incr in Debt	0	275	-470	-321	0	0	0	0
Dividend Paid	-1,624	-4,545	-2,716	-2,787	-3,347	-4,697	-5,926	-7,495
Others	-359	-163	-589	-551	-617	-377	-385	-385
CF from Fin. Activity	**-1,984**	**-4,433**	**-3,775**	**-3,659**	**-3,964**	**-5,074**	**-6,311**	**-7,880**
Incr/Decr of Cash	**463**	**-228**	**729**	**3,181**	**-1,515**	**-2,036**	**-94**	**-560**
Add: Opening Balance	206	669	440	1,169	4,350	2,835	798	705
Closing Balance	**669**	**440**	**1,169**	**4,350**	**2,835**	**798**	**705**	**145**

E: MOFSL Estimates

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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

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