

## Launching new products to combat competition...

**About the stock:** TTK Prestige is India's leading player in kitchen solutions and has been successful in transforming itself from a company manufacturing pressure cookers to having an entire gamut of home and kitchen appliances.

- It continues to be a market leader in the cooker segment and has material share in other appliance and cookware categories
- The company, over the years, has maintained its balance sheet strength with strong cash reserves (~₹ 400+ crore) and healthy RoIC of 35%+

**Q3FY23 Results:** TTK's revenue, earnings for Q3FY23 were below our estimates as the company reported a disappointing performance owing to enhanced competition.

- Revenues declined 9% YoY to ₹ 652 crore. On a three year CAGR basis, revenue growth was at a steady 6%
- Gross margin improved QoQ by 62 bps to 40.4% (down 204 bps YoY; I-direct estimate: 39.8%). However, on account of higher than anticipated employee and other expenses, EBITDA margin declined to 11.9% (down 560 bps YoY, down 286 bps QoQ)
- Lower revenues and decline in EBITDA margin led to PAT de-growth of 35% YoY to ₹ 58 crore (I-direct estimate : ₹ 91 crore)

**What should investors do?** TTK's share price has grown by 1.3x in the past three years. We believe the recent stock price correction (~24% from October 2022) offers a good entry point as it is currently trading at reasonable valuations (33x, 28x EPS of FY24E, FY25E, respectively).

- The company's ability to generate strong free cash flows and healthy RoIC, compel us to maintain **BUY** rating on the stock

**Target Price and Valuation:** We value TTK at ₹ 980 i.e. 35x FY25E EPS.

### Key triggers for future price performance:

- In order to cater to strong domestic and export demand, TTK has added annual capacity of 4 mn pieces non-stick cookware in Gujarat factory
- TTK is further looking to enhance its distribution reach in tier-II/III cities to capture long term growth opportunities. It has a healthy pipeline of ~47 SKUs to be launched in Q4FY23, which would propel growth, going forward
- Targeting to achieve ₹ 5000 crore by FY26 through organic and inorganic route (₹ 1000 crore). We build in revenue CAGR of 10% over FY22-25E

**Alternate Stock Idea:** Apart from TTK, we also like Bata India.

- Bata India has a strong b/s, diversified branded product portfolio and pan-India network, which would enable sustained long term profitable growth
- BUY with a target price of ₹ 2065



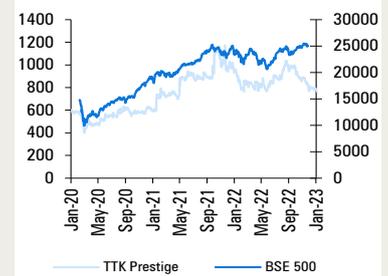
### Stock data

Particular	Amount
Market Capitalisation (₹ Crore)	10,679.9
Debt (FY22) (₹ Crore)	39.8
Cash (FY22) (₹ Crore)	404.6
EV (₹ Crore)	10,315.1
52 week H/L	1049 / 694
Equity Capital (₹ Crore)	13.9
Face Value	1.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	70.4	70.4	70.4	70.4	70.4
FII	9.6	9.3	8.9	8.8	8.8
DII	13.1	13.2	13.5	14.0	13.6
Others	6.9	7.1	7.2	6.9	7.2

### Price Chart



### Recent Event & Key risks

- Total 27 new SKUs launched in Q3FY23
- **Key Risk:** (i) Delay in launch of new products (ii) Input cost inflation may subdue margins

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	2,106.9	2,073.0	2,186.9	2,722.5	9.3%	2,857.0	3,198.2	3,576.9	9.5%
EBITDA	292.0	263.5	327.3	425.9	15.0%	371.4	459.7	538.0	8.1%
PAT	192.4	184.5	242.9	305.4	15.0%	265.2	329.0	388.2	8.3%
EPS (₹)	13.9	13.3	17.5	22.0		19.1	23.7	28.0	
P/E (x)	55.5	57.9	44.0	35.0		40.3	32.5	27.5	
EV/Sales (x)	5.1	5.1	4.8	3.8		3.6	3.2	2.9	
EV/EBITDA (x)	36.5	40.4	32.3	24.2		27.9	22.4	19.0	
RoCE (%)	21.8	17.1	18.6	21.6		16.6	18.9	20.0	
RoE (%)	16.5	14.1	16.1	17.7		13.9	15.5	16.4	

## Key points and conference call takeaways

- Revenue declined 9% YoY to ₹ 652 crore (I-direct estimate: ₹ 815 crore). On a three year CAGR basis, revenue growth was at 6%. Among categories, on a three year CAGR basis, cooker grew at the fastest rate by 9% (-10% YoY), followed by cookware, which grew 8% (-14% YoY) and appliances segment by 4% (-7% YoY). During the quarter, all channels were active but the general trade confidence was low and there was severe discounting at the lower priced products by competition and online channels. Revenue growth was negatively impacted owing to the company's policy not to offer huge price discounts (as offered by competition) and also due to delay in execution of some marketing plans
- Domestic sales were down 8% YoY at ₹ 637 crore while exports de-grew 37% YoY to ₹ 15 crore
- The management indicated that inflation pressure was felt the most on entry-level priced categories and lower on mid to premium ranged products. The company introduced 27 new SKUs across categories during Q3FY23 (9MFY23: 68 SKUs)
- The company has not taken any price hikes during the quarter. Gross margins improved 62 bps QoQ to 40.4% (Q3FY22: 42.4%; I-direct estimate: 42%). However, on account of higher than anticipated other expenses, EBITDA margins declined 560 bps YoY to 11.9% (down 286 bps QoQ) vs. I-direct estimate: 15.5%. Absolute EBITDA de-grew 38% YoY to ₹ 78 crore (I-direct estimate: ₹ 126 crore)
- The management indicated that commodity prices softened. However, the positive impact of the same would be visible from Q4FY23. The company expects to maintain EBITDA margins in the range of 14-16% through improvement in efficiencies

We expect the growth trajectory to improve in Q1FY24 driven by planned launch of new product SKUs. Driven by new product launches, consistent efforts to enhance market penetration, we expect TTK to deliver 10% revenue CAGR in FY22-25E.

### Q3FY23 conference call highlights:

- On the demand front, the management highlighted that inflation had impacted the purchasing power of the lower middle class and the demand was tepid during the quarter. Further, the management indicated that the sales of gas stoves was not growing at the earlier pace as it was now a mature category. The company has launched 'Svachh' range of gas stoves at the upper price band to stimulate growth for the gas stove segment
- Gross margins of the company contracted during Q3FY23 on a YoY basis by 204 bps to 40.4%. The management indicated that it is targeting a gross margin of ~ 42% once the demand and competitive scenario stabilises
- The company has not taken any price hike in FY23 till date and is not planning to take any price hike in the near future barring unforeseen circumstances
- On the competition front, the management said predatory discounting continued by online channels and smaller players and the company decided not to offer heavy discounts to maintain the long term brand value of its products. To combat the excessive discounting by peers the company is planning to launch new products at lower price points and could probably use its 'Judge' brand for the same
- The company had recently acquired a stake in Ultra Fresh, which is mainly into manufacturing and selling modular kitchens business. It achieved sales of ₹ 7 crore in Q3FY23 and ₹ 18 crore in 9MFY23. Ultrafresh added 52 studios in 9MFY23 (including 15 in Q3FY23) totalling 134 active studios as of December 31, 2022. The average ticket size for Ultra Fresh is currently between ₹ 150000 and ₹ 200000. Ultra Fresh has a presence in east and north India. The company is planning to scale up its presence in south and western India. The management indicated that the Prestige Smart Kitchen stores and Ultra fresh studios could be utilised for cross selling the products.

Ultrafresh operates in a high growth category but the company wants to tread carefully as the segment is highly customer satisfaction centric

- TTK's international subsidiary Horwood achieved sales of £4.5 million during Q3FY23 (previous year £4.6 million) and £11.4 million in 9MFY23 (previous year £13.9 million). The management highlighted that in spite of recession and steep inflation due to the ongoing geopolitical crisis in UK and Europe coupled with UK's own political issues Horwood has been able to maintain its revenues on a YoY basis in Q3FY23. Operating EBITDA for Q3FY23 was at £0.28 million (previous year £0.37 million) and for 9MFY23 at £(0.02) million (previous year £1.5 million). The drop in EBITDA was caused by an increase in key commodity prices, global supply chain issues and reduced operating leverage due to lower sales
- TTK expects to maintain the share of online channel in the range of 14-18%
- Prestige Xclusive chain strength was at 672 stores in 371 towns contributing significantly to total sales
- The company has slated for launch around 47 new SKUs during Q4FY23. Also, TTK is planning to launch premium hobs, chimneys, etc. TTK intends to pursue an aggressive retail strategy and is expected to open large company owned stores in certain cities

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	652.1	815.5	719.1	-9.3	807.9	-19.3	Revenue growth impacted due to company not resorting to excessive discounts as done by its peers
Other Income	13.0	8.3	5.4	141.4	7.9	64.1	
Employee Expenses	50.9	55.5	50.2	1.3	52.6	-3.2	
Raw Material Expenses	388.9	490.9	414.1	-6.1	486.8	-20.1	Gross margins declined 204 bps YoY (up 62 bps QoQ) at 40.4%
Other Expenses	134.8	142.7	129.2	4.3	149.4	-9.8	
EBITDA	77.6	126.4	125.6	-38.2	119.2	-34.9	
EBITDA Margin (%)	11.9	15.5	17.5	-556 bps	14.8	-286 bps	
Depreciation	11.8	11.7	10.7	9.6	11.4	3.1	
Interest	1.7	0.7	1.4	23.4	0.7	152.2	
Extraordinary (expense)/Income	0.0	0.0	0.0	NA	0.0	NA	
PBT	77.2	122.3	118.9	-35.1	115.0	-32.9	
Tax Outgo	19.7	31.2	30.2	-34.9	29.3	-33.0	
PAT	57.5	91.1	88.7	-35.2	85.7	-32.9	

Key Metrics

Segment Revenue (₹)							
Cookers	202.8	252.7	225.6	(10.1)	249.5	-18.7	
Cookware	98.1	128.9	114.1	(14.0)	130.7	-24.9	
Appliances	324.7	401.5	349.1	(7.0)	399.6	-18.7	

Source: Company, ICICI Direct Research

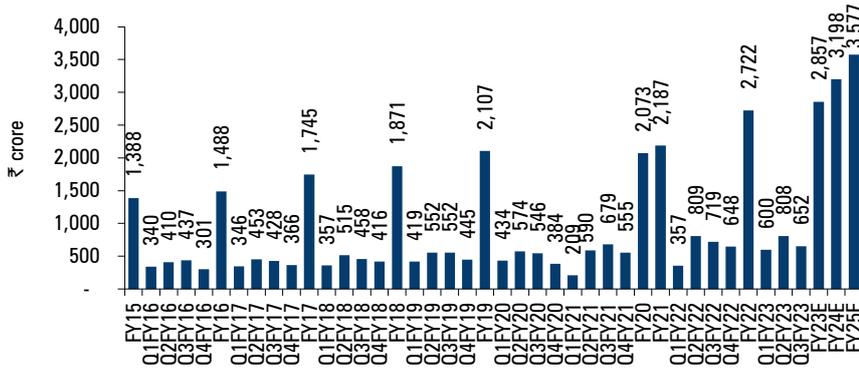
Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E		FY24E			FY25E
	Actual	Old	New	% Change	Old	New	% Change	Introduced
Revenue	2,722.5	3,048.7	2,857.0	-6.3	3,415.6	3,198.2	-6.4	3,576.9
EBITDA	425.9	446.4	371.4	-16.8	536.7	459.7	-14.3	538.0
EBITDA Margin (%)	15.6	14.6	13.0	-164 bps	15.7	14.4	-134 bps	15.0
PAT	305.4	323.2	265.2	-17.9	388.5	329.0	-15.3	388.2
EPS (₹)	22.0	23.3	19.1	-17.9	28.0	23.7	-15.3	28.0

Source: Company, ICICI Direct Research

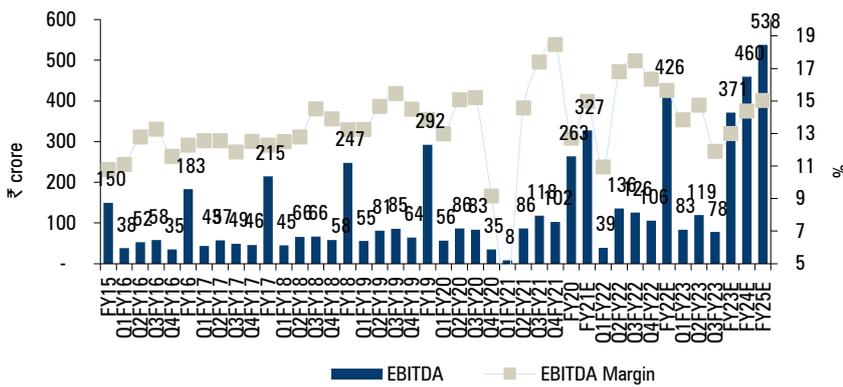
Financial story in charts....

Exhibit 3: Revenue trend



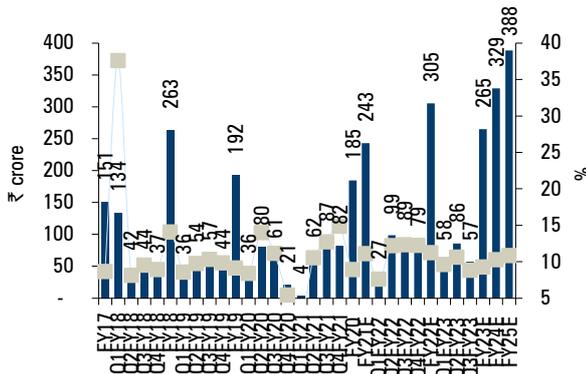
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA trend



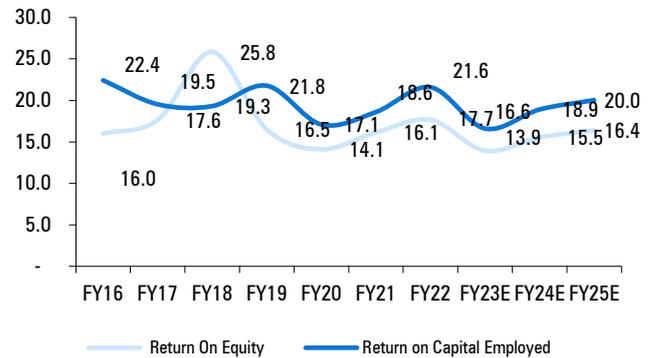
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratio trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2,186.9	5.5	17.5	-4.1	43.1	31.6	16.1	18.6
FY22	2,722.5	24.5	22.0	25.7	34.3	23.7	17.7	21.6
FY23E	2,857.0	4.9	19.1	-13.2	39.5	27.3	13.9	16.6
FY24E	3,198.2	11.9	23.7	24.1	31.8	22.0	15.5	18.9
FY25E	3,576.9	11.8	28.0	18.0	27.0	18.6	16.4	20.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>2,722.5</b>	<b>2,857.0</b>	<b>3,198.2</b>	<b>3,576.9</b>
Growth (%)	24.5	4.9	11.9	11.8
Raw Material Expenses	1,594.9	1,697.0	1,862.2	2,080.3
Employee Expenses	218.7	222.8	249.5	271.8
Manufacturing & other exp	483.0	565.7	626.8	686.8
Total Operating Expenditure	2,296.6	2,485.6	2,738.5	3,038.9
<b>EBITDA</b>	<b>425.9</b>	<b>371.4</b>	<b>459.7</b>	<b>538.0</b>
Growth (%)	30.1	-12.8	23.8	17.0
Depreciation	44.2	48.8	52.3	55.8
Interest	6.2	5.2	6.0	6.2
Other Income	35.1	37.1	38.4	42.9
Exceptional Income	0.0	0.0	0.0	0.0
PBT	410.6	354.5	439.8	518.9
Growth (%)	27.2	-13.6	24.1	18.0
Total Tax	105.2	89.3	110.8	130.8
<b>PAT</b>	<b>305.4</b>	<b>265.2</b>	<b>329.0</b>	<b>388.2</b>
Growth (%)	25.7	-13.2	24.1	18.0
<b>EPS (₹)</b>	<b>22.0</b>	<b>19.1</b>	<b>23.7</b>	<b>28.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
PAT	305.4	265.2	329.0	388.2
Add: Depreciation	44.2	48.8	52.3	55.8
(Inc)/dec in Current Assets	-184.8	-87.3	-108.8	-146.8
Inc/(dec) in CL and Provisions	140.4	-39.0	-15.4	40.5
Others	-	-	-	-
<b>CF from operating activities</b>	<b>305.2</b>	<b>187.7</b>	<b>257.0</b>	<b>337.6</b>
(Inc)/dec in Investments	64.8	-71.1	-42.7	-46.9
(Inc)/dec in Fixed Assets	-60.4	-65.0	-60.0	-60.0
(Inc)/dec in CWIP	11.4	0.0	0.0	0.0
Others	(7.8)	-	-	-
<b>CF from investing activities</b>	<b>8.0</b>	<b>-136.1</b>	<b>-102.7</b>	<b>-106.9</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-0.6	0.2	0.0	0.0
Others	-69.2	-92.8	-115.1	-135.9
<b>CF from financing activities</b>	<b>-69.8</b>	<b>-92.6</b>	<b>-115.1</b>	<b>-135.9</b>
Net Cash flow	243.4	-41.1	39.2	94.8
Opening Cash	161.2	404.6	363.6	402.8
<b>Closing Cash</b>	<b>404.6</b>	<b>363.6</b>	<b>402.8</b>	<b>497.6</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	13.9	13.9	13.9	13.9
Reserve and Surplus	1,715.7	1,888.1	2,101.9	2,354.2
Total Shareholders funds	1,729.6	1,902.0	2,115.8	2,368.1
Total Debt	39.8	40.0	40.0	40.0
Deferred Tax Liability	37.2	37.2	37.2	37.2
Other LT Liabilities	52.5	52.5	52.5	52.5
<b>Total Liabilities</b>	<b>1,859.1</b>	<b>2,031.7</b>	<b>2,245.5</b>	<b>2,497.8</b>
<b>Assets</b>				
Gross Block (Including Goodwill)	776.4	841.4	901.4	961.4
Less: Accu Depreciation	230.6	279.4	331.6	387.4
Net Block	545.9	562.1	569.8	574.0
Capital WIP	6.6	6.6	6.6	6.6
Total Fixed Assets	552.5	568.7	576.4	580.6
Investments	355.6	426.7	469.4	516.3
Inventory	585.6	610.5	657.2	735.0
Debtors	329.7	391.4	438.1	490.0
Loans and Advances	127.9	128.6	143.9	161.0
Other Current Assets	7.8	7.9	8.0	8.1
Cash	404.6	363.6	402.8	497.6
Total Current Assets	1,455.6	1,501.9	1,649.9	1,891.6
Current Liabilities	543.8	504.7	489.2	529.6
Provisions	11.6	11.7	11.8	11.9
Total Current Liabilities	555.4	516.4	501.0	541.5
Net Current Assets	900.2	985.5	1,148.9	1,350.1
Others Assets	50.8	50.8	50.8	50.8
<b>Application of Funds</b>	<b>1,859.1</b>	<b>2,031.7</b>	<b>2,245.5</b>	<b>2,497.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	22.0	19.1	23.7	28.0
Cash EPS	25.2	22.6	27.5	32.0
BV	124.7	137.1	152.5	170.7
DPS	5.5	6.7	8.3	9.8
Cash Per Share	29.2	26.2	29.0	35.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	15.6	13.0	14.4	15.0
PBT Margin (%)	15.1	12.4	13.8	14.5
PAT Margin (%)	11.2	9.3	10.3	10.9
Inventory days	78.5	78.0	75.0	75.0
Debtor days	44.2	50.0	50.0	50.0
Creditor days	89.1	75.0	65.0	65.0
<b>Return Ratios (%)</b>				
RoE	17.7	13.9	15.5	16.4
RoCE	21.6	16.6	18.9	20.0
RoIC	37.8	28.0	31.7	34.6
<b>Valuation Ratios (x)</b>				
P/E	35.0	40.3	32.5	27.5
EV / EBITDA	24.2	27.9	22.4	19.0
EV / Net Sales	3.8	3.6	3.2	2.9
Market Cap / Sales	3.9	3.7	3.3	3.0
Price to Book Value	6.2	5.6	5.0	4.5
<b>Solvency Ratios (x)</b>				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.6	2.9	3.3	3.5
Quick Ratio	1.6	1.7	2.0	2.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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