

TTK Prestige Ltd

Normalcy to return from FY24; maintain BUY

Result Synopsis

TTKPT registered disappointing performance with revenue declining 9%. Revenue decline can be attributed to 1) shifting of Diwali festival to Q2 vs Q3 in the previous year, 2) lower demand on high inflationary environment, 3) decline in wallet share for the kitchen and 4) Lower pick-up in inventory by the dealers. Gross margins have seen sequential expansion; however, the expansion was lower than expected as company is still holding high costs inventory. The company is gradually bringing down high cost inventory carried from previous quarters which would lead to material margin improvement in ensuing quarters. The company is confident to deliver strong double-digit revenue growth in FY24 as premium innovative products is not seeing demand slowdown and TTKPT has been pioneer in launching innovative products. Considering the track record of launching new innovative products and brand salience, we continue to maintain BUY as we feel TTKPT should command higher multiple as company is market leader in its core categories and has best-in-class margin profile and it also carries substantial free cashflow of Rs7bn at the end of the quarter even after deploying enough working capital for cost effective supply chain as well as ongoing capex.

We expect FY22-25E normalized growth trajectory of 9% revenue CAGR. With margins also expected to reach 15.3% by FY25, we estimate FY22-25E EBITDA and PAT CAGR of 7.5% each respectively. We remain upbeat on the stock as company has been able to protect its margin and market share despite challenging environment and company is confident of strong double-digit revenue growth despite uncertainties in exports and UK subsidiary Horwood. We continue to value the company at 40x FY24 EPS and arrive at a revised PT of Rs987 maintain BUY.

Result Highlights

- Business Update** – Shifting of festival from Q3 in the previous year to Q2 in the current year has resulted in subdued Q3 as expected. Wallet share in the kitchen has been taken away travel and tourism resulting in normalization of spends. Inflationary environment has also resulted lower spends towards kitchen appliances.
- Margins** – Company is not expecting much negative surprise in commodity prices and expect to improve gross margins in coming quarters. Company wants to achieve EBITDA margins in the range of 14.5%-16%.
- Inventory provisioning** – The company has made provisioning of Rs30mn on account of inventory which company feels is not serviceable.
- Product mix** – Product mix is shifting towards more electrical products. For e.g., induction cook-top is taking preference over gas stoves which is now reached the state of maturity. Also, there is strong demand for mixer grinders.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,521	8,142	NA	-19.9	NA	
EBITDA	776	1,210	NA	-35.9	NA	
EBITDA Margin (%)	11.9	14.9	NA	300 bps	NA	Shift in Festival season has led to revenue miss
Adjusted PAT	575	864	NA	-33.5	NA	

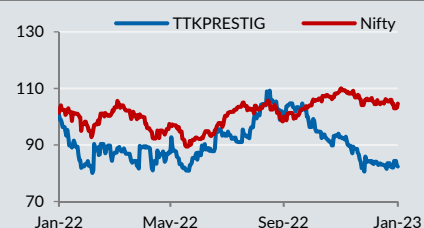
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 781
Target Price	: Rs 987
Potential Return	: +26.3%

Stock data (as on Jan 31, 2023)

Nifty	17,662
52 Week h/l (Rs)	1050/694
Market cap (Rs/USD mn)	109117/1338
Outstanding Shares (mn)	139
6m Avg t/o (Rs mn):	74
Div yield (%)	0.8
Bloomberg code:	TTKPT IN
NSE code:	TTKPRESTIG

Stock performance



	1M	3M	1Y
Absolute return	-2.3%	-15.8%	-18.2%

Shareholding pattern (As of Dec'22 end)

Promoter	70.4%
FII+DII	22.4%
Others	7.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	987	1,096

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	23.0	26.3
EPS (Old)	27.4	-
% change	16.1%	7.5%

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	27,828	30,339	33,116
YoY Growth	9.9	9.0	9.2
EBITDA	3701	4460	5051
YoY Growth	-8.9	20.5	13.3
PAT	2662	3186	3652
YoY Growth	-9.4	19.7	14.6
ROE	14.9	15.9	16.3
EPS	19.2	23.0	26.3
P/E	40.7	34.0	29.6
BV	136.2	152.7	171.5
EV/EBITDA	29.2	23.9	20.7

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	9MFY23	9MFY22	y/y %
Sales	7,191	6,476	5,997	8,079	6,521	(9.3)	(19.3)	20,597	18,846	9.3
EBITDA	1256	1058	830	1192	776	(38.2)	(34.9)	2,797	3,004	(6.9)
EBITDA Margin %	17.5	16.3	13.8	14.8	11.9			13.6	15.9	
Depreciation	107.2	109.4	108.3	114.0	117.5	9.6	3.1	340	307	10.5
EBIT	1149	949	721	1078	658	(42.7)	(38.9)	2,457	2,697	(8.9)
EBIT Margin %	16.0	14.7	12.0	13.3	10.1			11.9	14.3	
Interest charges	14	8	11	7	17	23.4	152.2	35	32	8.8
Other Income	54	133	67	79	130	141.4	64.1	276	217	27.3
PBT	1189	1074	777	1150	772	(35.1)	(32.9)	2699	2882	(6.4)
Tax	302	282	200	293	197	(34.9)	(33.0)	691	737	(6.3)
Effective Tax Rate (%)	25.4	26.3	25.8	25.5	25.5			25.6	25.6	
PAT	887	792	576	857	575	(35.2)	(32.9)	2008	2145	(6.4)
PAT Margin %	12.3	12.2	9.6	10.6	8.8			9.7	11.4	
EPS (Rs)	6.4	5.7	4.2	6.2	4.1	(35.2)	(32.9)	14	15	(6.4)

Source: Company, YES Sec

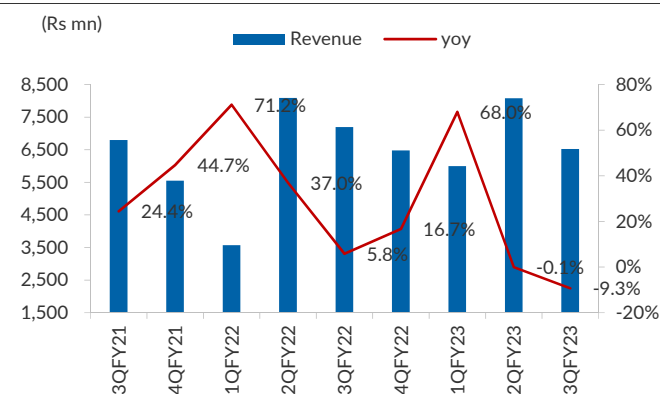
Exhibit 3: Segmental Performance

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Cookers	2,256	2,188	1,941	2,495	2,028	(10.1)	(18.7)	6,464	5,672	14.0
Cookware	1141	953	1056	1307	981	(14.0)	(24.9)	3,344	3,214	4.0
Appliances	3494	3063	2722	3996	3247	(7.1)	(18.7)	9,964	9,250	7.7
Others	303	271	278	282	265	(12.4)	(5.9)	826	713	15.9
Total Sales	7194	6476	5997	8079	6521	(9.4)	(19.3)	20,597	18,849	9.3

Source: Company, YES Sec

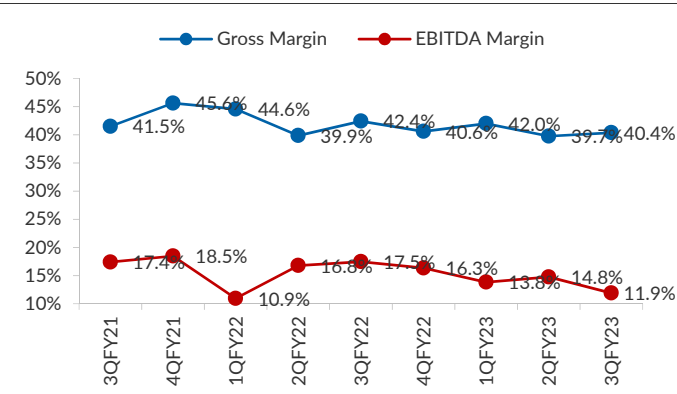
CHARTS

Exhibit 4: Subdued demand environment resulted in revenue decline



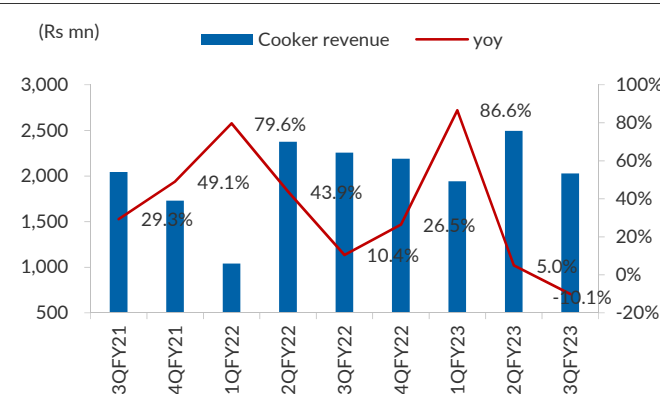
Source: Company, YES Sec

Exhibit 5: Liquidation of high-cost inventory has resulted in lower gross margins



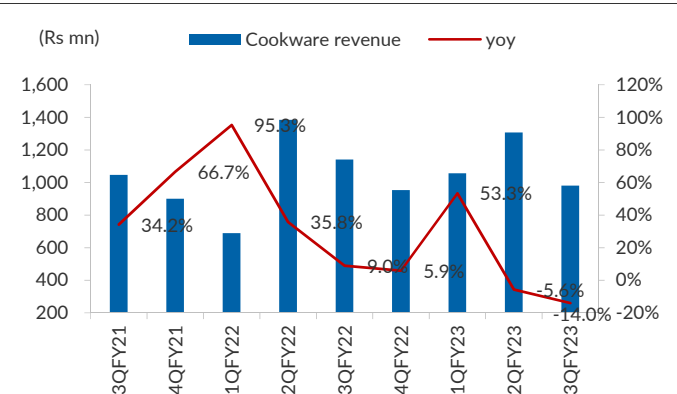
Source: Company, YES Sec

Exhibit 6: High base has resulted in lower growth for cookers



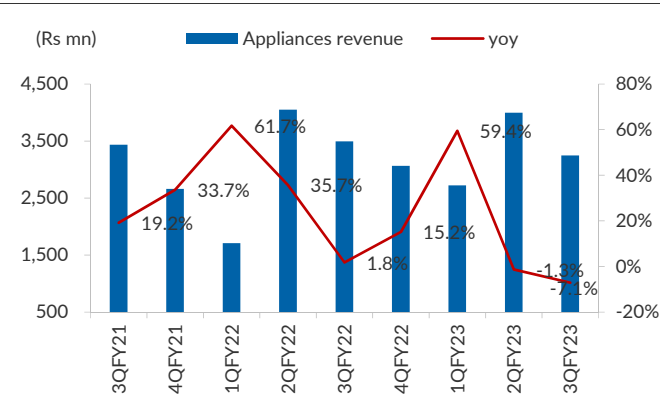
Source: Company, YES Sec

Exhibit 7: Decline in exports have resulted in de-growth in cookware revenue



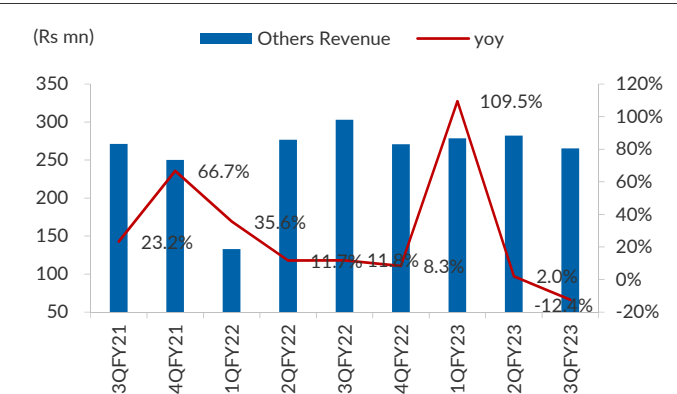
Source: Company, YES Sec

Exhibit 8: High inflation has resulted in lower demand for appliances



Source: Company, YES Sec

Exhibit 9: Others revenue growth has been subdued on lower consumer spending



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business Update** – Shifting of festival from Q3 in the previous year to Q2 in the current year has resulted in subdued Q3 as expected. Wallet share in the kitchen has been taken away travel and tourism resulting in normalization of spends. Inflationary environment has also resulted lower spends towards kitchen appliances.
- **Real estate** – Buoyancy in real estate will bring positive growth with time lag
- **Gross Margins** – Company is not expecting much negative surprise in commodity prices and expect to improve gross margins in coming quarters.
- **EBITDA margins** – Company wants to achieve EBITDA margins in the range of 14.5%-16%.
- **Growth Aspirations** – Company is looking for 15% value growth over medium to long term. Company is looking to make some categories big and reach the aspiration of 15% value growth.
- **Market share** – Company is not losing market share, some players are nibbling at certain market at lower price points.
- **Price increase** – The company has not taken any price increase in FY23 so far. There has been volume growth in most of the product category for 9MFY23. The company is not looking to increase the prices in next two quarters as they are covered for it in terms of raw materials.
- **Product mix** – Product mix is shifting towards more electrical products. For e.g. induction cook-top is taking preference over gas stoves which is now reached the state of maturity. Also there is strong demand for mixer grinders.
- **Inventory provisioning** – The company has made provisioning of Rs30mn on account of inventory which company feels is not serviceable.
- **Competitive intensity** - Competitive intensity continues to remain high and some players are offering discounts to increase the volumes.
- **Secondary Sales** – There has been growth in volume terms at the secondary level, dealers have stocked less has resulted in lower primary sales.
- **Channel mix** – The growth rate of e-comm channels have normalized and they are not growing at the rapid pace. Company expects e-comm sales to stabilize at 14-18% of its total sales.
- **Ultra-fresh** – Too early to comment on sales of ultrafresh. Company is targeting 2-3 new kitchen per month from the one studio. Realizations have increased after prestige have been associated with the Ultrafresh.
- **Judge brand** – The company is now formulating strategy to firm up sales of the judge brands and there has been downtrading happening in kitchen appliances.

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	139	139	139	139	139
Reserves	14,662	16,829	18,736	21,020	23,638
Net worth	14,800	16,967	18,875	21,159	23,776
Debt	0	0	0	0	0
Deferred tax liab (net)	346	362	362	362	362
Other non current liabilities	198	281	281	283	284
Total liabilities	15,345	17,610	19,518	21,803	24,422
Fixed Asset	4,160	4,171	4,319	4,440	4,534
Investments	6,131	5,489	5,489	5,489	5,489
Other Non-current Assets	664	796	869	915	936
Net Working Capital	4,270	7,009	8,651	9,122	9,643
Inventories	3,934	5,103	5,672	6,184	6,750
Sundry debtors	2,719	2,987	3,721	4,056	4,428
Loans and Advances	35	78	78	78	78
Sundry creditors	1,997	3,559	3,126	3,408	3,720
Other current liabilities	1,828	1,585	1,731	1,878	2,039
Cash & equivalents	120	146	190	1,837	3,819
Total Assets	15,345	17,610	19,518	21,803	24,422

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	20,331	25,322	27,828	30,339	33,116
Operating profit	3,146	4,062	3,701	4,460	5,051
Depreciation	379	417	460	514	569
Interest expense	31	40	40	40	40
Other income	275	350	383	386	476
Profit before tax	3,012	3,955	3,585	4,291	4,918
Taxes	779	1,019	923	1,105	1,267
Minorities and other	-	-	-	-	-
Adj. profit	2,232	2,937	2,662	3,186	3,652
Exceptional items	(119)	-	-	-	-
Net profit	2,351	2,937	2,662	3,186	3,652

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	3,043	3,995	3,625	4,331	4,958
Depreciation	379	417	460	514	569
Tax paid	(779)	(1,019)	(923)	(1,105)	(1,267)
Working capital Δ	(1,663)	(1,895)	(1,642)	(471)	(521)
Other operating items					
Operating cashflow	979	1,498	1,519	3,269	3,740
Capital expenditure	(358)	(428)	(607)	(635)	(663)
Free cash flow	621	1,070	911	2,634	3,077
Equity raised	6,373	62	0	-	-
Investments	(192)	(201)	-	-	-
Debt financing/disposal	-	-	-	-	-
Interest paid	(31)	(40)	(40)	(40)	(40)
Dividends paid	(6,930)	(832)	(754)	(902)	(1,034)
Net Δ in cash	(231)	26	44	1,647	1,982

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.74	0.74	0.74	0.74	0.74
Interest burden (x)	0.99	0.99	0.99	0.99	0.99
EBIT margin (x)	0.15	0.16	0.13	0.14	0.15
Asset turnover (x)	1.12	1.20	1.18	1.17	1.15
Financial leverage (x)	1.31	1.33	1.32	1.29	1.28
RoE (%)	16.1	18.5	14.9	15.9	16.3

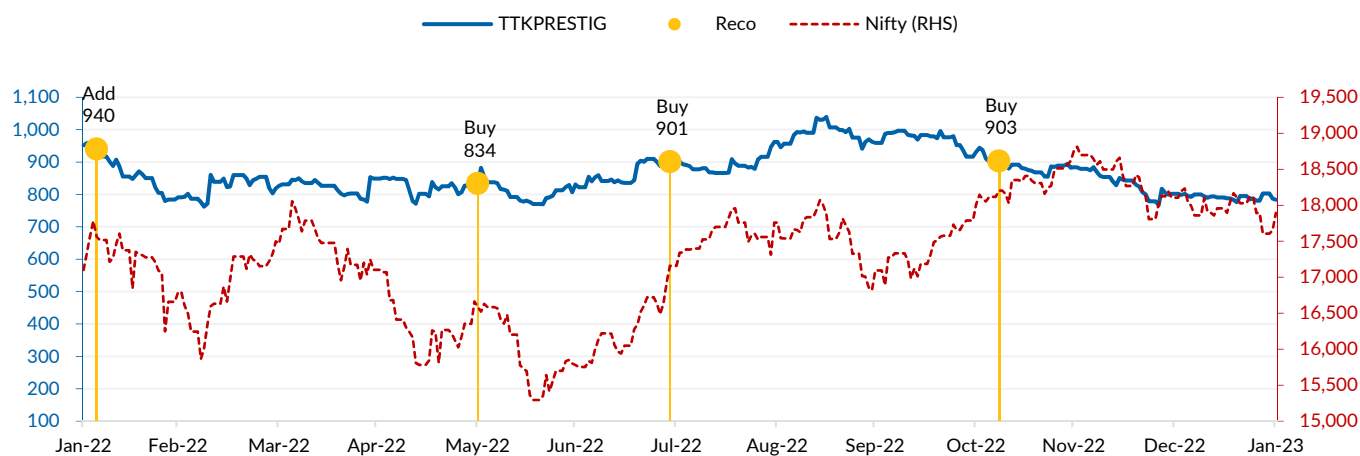
Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	5.0	24.5	9.9	9.0	9.2
Op profit growth	20.6	29.1	(8.9)	20.5	13.3
EBIT growth	21.3	31.3	(9.3)	19.5	14.5
Net profit growth	12.5	31.5	(9.4)	19.7	14.6
Profitability ratios (%)					
OPM	15.5	16.0	13.3	14.7	15.3
EBIT margin	15.0	15.8	13.0	14.3	15.0
Net profit margin	11.0	11.6	9.6	10.5	11.0
RoCE	21.9	25.2	20.2	21.6	22.1
RoNW	16.1	18.5	14.9	15.9	16.3

TTK Prestige Ltd

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	12.3	13.9	11.2	12.3	12.7
Per share ratios					
EPS	17.0	21.2	19.2	23.0	26.3
Dividend per share	50.0	6.0	5.4	6.5	7.5
Cash EPS	18.8	24.2	22.5	26.7	30.5
Book value per share	106.8	122.4	136.2	152.7	171.5
Valuation ratios					
P/E	46.0	36.9	40.7	34.0	29.6
P/CEPS	42.8	29.0	26.2	23.7	21.4
P/B	7.4	6.2	5.3	4.6	4.0
EV/EBIDTA	34.4	26.6	29.2	23.9	20.7
Payout (%)					
Dividend payout	310.4	28.3	28.3	28.3	28.3
Tax payout	25.9	25.8	25.8	25.8	25.8
Liquidity ratios					
Debtor days	48.8	43.1	48.8	48.8	48.8
Inventory days	70.6	73.6	74.4	74.4	74.4
Creditor days	35.9	51.3	41.0	41.0	41.0

Recommendation Tracker



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