

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	458.9 / 5.5
52-Week Range (INR)	54262 / 35600
1, 6, 12 Rel. Per (%)	-2/-12/-15
12M Avg Val (INR M)	967

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	47.9	53.6	62.0
Sales Gr. (%)	23.2	12.0	15.6
EBITDA	8.6	10.5	12.9
EBITDA Margin (%)	18.0	19.5	20.7
Adj. PAT	5.7	6.9	8.6
Adj. EPS (INR)	512.2	619.9	774.9
EPS Gr. (%)	6.5	21.0	25.0
BV/Sh. INR	1229.2	1478.2	1789.5

Ratios

RoE (%)	41.7	41.9	43.3
RoCE (%)	40.5	40.9	45.4
Payout (%)	48.8	70.0	70.0

Valuations

P/E (x)	80.3	66.4	53.1
P/BV (x)	33.5	27.8	23.0
EV/EBITDA (x)	53.6	43.6	35.3
Div. Yield (%)	0.6	0.9	1.1

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	46.1	46.1	47.2
DII	21.9	19.0	17.7
FII	22.4	25.3	25.2
Others	9.6	9.6	9.9

FII Includes depository receipts

CMP: INR41,140 TP: INR37,200 (-10%) Neutral

Disappointing results, stress to continue in 1HFY24

- PAG reported weak 4QFY23 results. Volume declined 14.6% YoY, while sales declined 12.8% (highest decline in sales since FY12, excluding the Covid-impacted period). Even the EBITDA margin of 13.9% was the lowest in over a decade in a non-Covid-hit quarter, affected by the lack of fixed cost absorption due to a volume decline and the consumption of high-cost inventory during the quarter.
- While material consumption costs are likely to ease going forward as indicated by the management, a recovery in sales to double-digit growth appears uncertain in the near term due to the implementation process of Auto Replenishment System (ARS) and increased competitive intensity in the post-Covid period. **Maintain Neutral on the stock.**

Weak revenue growth leads to substantial miss on EBITDA

- Sales declined 12.8% YoY to INR9,691m (est. INR10,995m) in 4QFY23.
- EBITDA declined 49.7% YoY/30.3% QoQ to INR1,343m (est. INR1,723m). PBT fell 56.7% YoY/35.2% QoQ to INR1,065m (est. INR1,439m).
- Adj. PAT was down 58.9% YoY/36.7% QoQ at INR784m (est. INR1,077m).
- Gross margin contracted ~280bp YoY to 56.6% (est. 53.5%).
- As a percentage of sales, higher employee expenses (+470bp YoY to 22.7%) and other expenses (+270bp YoY to 20%) led to EBITDA margin contraction of ~1,020bp YoY to 13.9% (est. 15.7%).
- FY23 sales/EBITDA/adj. PAT grew 23.2%/9.8%/6.5% YoY to INR47.9b/INR8.6b/INR5.7b.

Highlights from the management commentary

- Demand was subdued in 4Q (even on QoQ basis) but is improving now.
- 4QFY23 was also affected by the ARS implementation. It will take some more time to fully implement ARS as it has 4,800+ distributor accounts. There will be some impact for two more quarters.
- PAG has a ~17-18% market share in the men's innerwear category and in high single digits in other categories.
- Inventory is nearly at an all-time high with inventory days at ~120 v/s 92 YoY. It purchased advance inventory in anticipation of growth, which did not come. However, high-cost inventory is now fully consumed.

Valuation and view

- There are no material changes to our model.
- 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 6.5% in FY23. If demand recovers in the next six months, we believe that the company can still grow its earnings by ~20% over the next two years.
- PAG's medium-term earnings prospects have improved due to investments made in distribution, designs, and technology. RoCE is likely to be ~45% after falling to the late 30s in FY20/FY21. However, since the valuation at 53x FY25E EPS is expensive, we reiterate Neutral with a **TP of INR37,200.**

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	5,015	10,840	11,898	11,111	13,413	12,550	12,233	9,691	38,865	47,886	10,995	-11.9%
YoY change (%)	76.1	46.4	28.3	26.2	167.4	15.8	2.8	-12.8	37.2	23.2	-1.0	
Gross Profit	2,895	5,941	6,335	6,603	7,311	6,999	6,408	5,488	21,775	26,207	5,884	-6.7%
Gross margin (%)	57.7	54.8	53.2	59.4	54.5	55.8	52.4	56.6	56.0	54.7	53.5	
EBITDA	342	2,334	2,507	2,671	2,978	2,379	1,928	1,343	7,855	8,627	1,723	-22.0%
Margins (%)	6.8	21.5	21.1	24.0	22.2	19.0	15.8	13.9	20.2	18.0	15.7	
YoY change	L/P	41.2	10.9	57.3	770.7	1.9	-23.1	-49.7	49.2	9.8	-35.5	
Depreciation	159	165	167	164	180	188	200	213	655	781	215	
Interest	73	74	77	97	85	92	100	136	322	413	100	
Other Income	36	54	71	49	33	27	16	71	210	147	32	
PBT	145	2,148	2,334	2,460	2,746	2,125	1,645	1,065	7,088	7,581	1,439	-26.0%
Tax	36	543	589	555	675	504	407	282	1,722	1,869	362	
Rate (%)	24.6	25.3	25.2	22.6	24.6	23.7	24.8	26.5	24.3	24.6	25.2	
PAT	109	1,605	1,746	1,905	2,070	1,621	1,237	784	5,365	5,712	1,077	-27.3%
YoY change (%)	L/P	44.8	13.6	64.9	1,790.9	1.0	-29.1	-58.9	57.5	6.5	-43.5	

E: MOFSL Estimates

Key Performance Indicators

Y/E MARCH	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Volume growth (%)	70.0	43.0	24.0	7.0	150.0	1.0	-11.0	-14.6
Realisation growth (%)	6.1	3.4	4.3	19.2	17.4	14.8	13.8	1.8
2Y CAGR (%)								
Volume (2Y average)	0.5	14.7	17.0	30.5	110.0	22.0	6.5	-3.8
Sales	-22.5	18.2	22.4	43.3	117.0	30.2	14.9	4.9
EBITDA	-57.2	25.1	34.4	114.4	LP	19.9	-7.7	-11.1
PAT	-68.5	18.4	41.6	147.8	LP	20.9	-10.3	-17.7
% of Sales								
COGS	42.3	45.2	46.8	40.6	45.5	44.2	47.6	43.4
Employee Expenses	30.4	16.3	16.0	18.1	16.1	18.3	17.6	22.7
Other Expenses	20.5	17.0	16.2	17.3	16.2	18.5	19.1	20.0
Depreciation	3.2	1.5	1.4	1.5	1.3	1.5	1.6	2.2
YoY change (%)								
COGS	43.4	48.6	34.7	20.8	187.8	13.3	4.7	-6.8
Employee Expenses	24.3	36.1	30.0	21.7	41.4	30.1	13.0	9.9
Other Expenses	110.1	59.5	36.1	11.5	111.8	26.1	21.0	0.8
Other Income	-41.2	44.3	71.9	-11.3	-7.4	-50.1	-77.0	44.6
EBIT	-136.1	44.9	11.2	62.6	1,428.4	1.0	-26.2	-54.9

E: MOFSL Estimates



Highlights from management interaction

Performance and demand environment

- Demand was subdued during the quarter even on a QoQ basis. At present, it is seeing some improvement in demand.
- 4QFY23 was also affected by the ARS implementation. It will take some more time to fully implement ARS as it has 4,800+ distributor accounts. There will be an impact for two more quarters.
- The management is focusing on intensifying GT distribution, growing online business, ensuring robust supply chain and improving customer experience.
- Volume declined 14.6% YoY and 19.2% QoQ in 4QFY23.
- E-Commerce business grew 34% YoY.
- The management believes that customers are postponing their purchases.
- It does not see the need for immediate price intervention.
- Secondary sales were marginally higher YoY during the quarter.
- PAG has a ~17-18% market share in the men's category and in high single digits in other categories.
- Denim – Market feedback has been good for it.

Distribution channels and supply chain

- Channel expansion was in line with internal management plans.
- It added 1,222 MBOs in 4QFY23, increasing the total count to 120k+.
- PAG added 61 EBOs in 4QFY23 and expanded its footprint to 431+ cities. There are total 1,289+ EBOs with 48/78 exclusive for woman/children.
- LFS is now present with 24 partners in 3,062+ stores.

Costs and margins

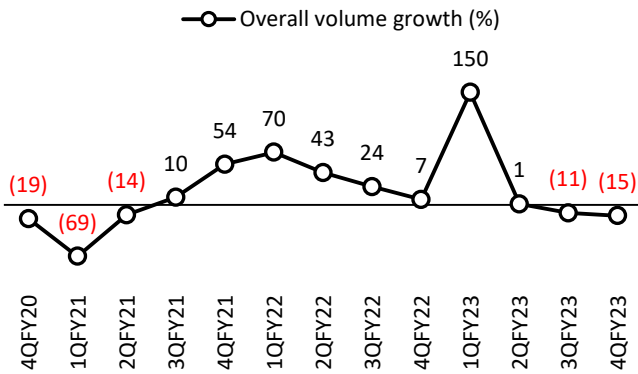
- Aggressive measures were taken to control costs during the quarter.
- EBITDA margin was affected by higher production costs and lower absorption of other costs due to lower revenue.
- Advertisement costs normalized during the quarter.

Other points

- Inventory is nearly at an all-time high with inventory days at ~120 v/s 92 YoY. Inventory days are higher also on account of lower revenues and volume. PAG purchased advance inventory in anticipation of growth, which did not come. It will take a bit longer to liquidate the inventory. However, high-cost inventory is now fully consumed.
- Trade inventory at present is ~48-50 days. Inventory days have corrected by 20-25 days at the distributor level and they are now ~45-50 days.

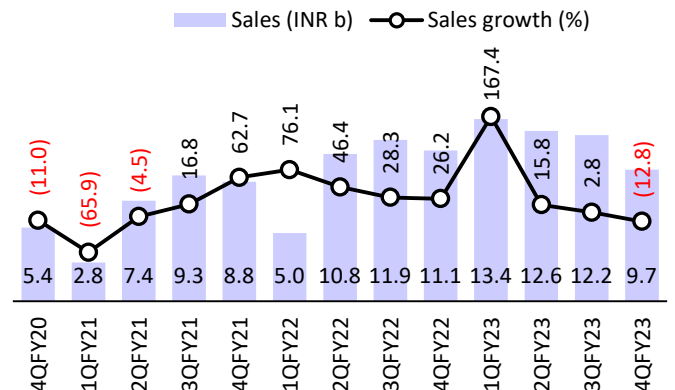
Key exhibits

Exhibit 1: Total volume down 14.6% YoY in 4Q on high base



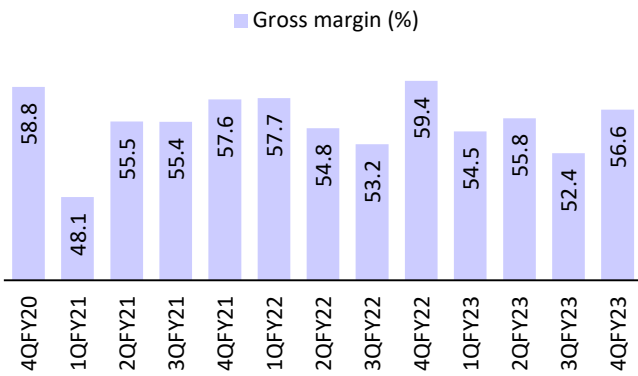
Source: Company, MOFSL

Exhibit 2: Sales declined 12.8%YoY to INR9.7b



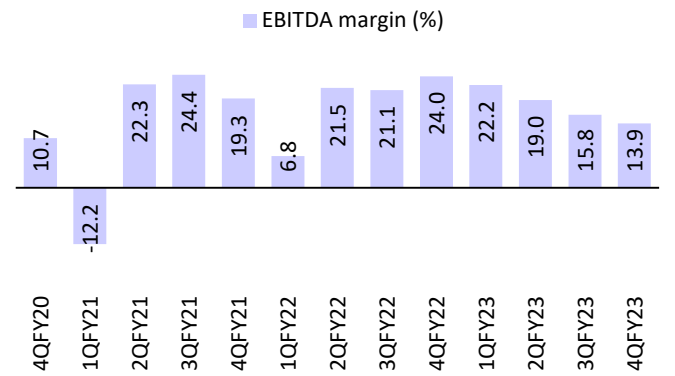
Source: Company, MOFSL

Exhibit 3: Gross margin contracted ~280bp YoY to 56.6%



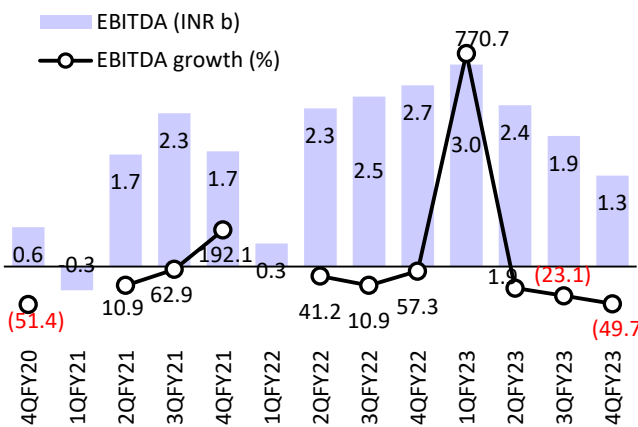
Source: Company, MOFSL

Exhibit 4: EBITDA margin down 1020bp YoY to 13.9%



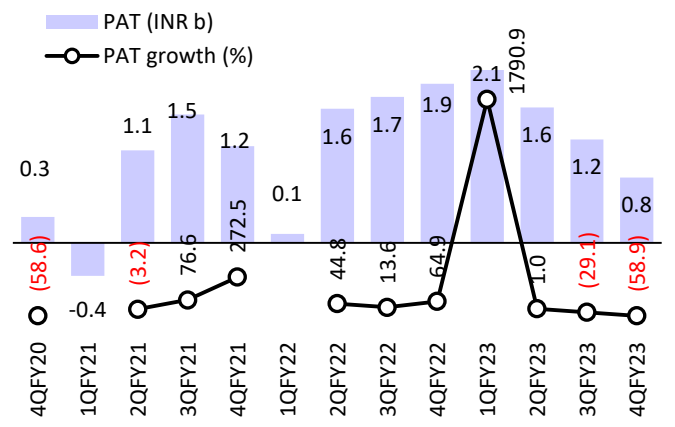
Source: Company, MOFSL

Exhibit 5: EBITDA declined 49.7% YoY to INR1.3b



Source: Company, MOFSL

Exhibit 6: Adj. PAT declined 58.9% YoY to INR0.8b



Source: Company, MOFSL

Exhibit 7: Sustainability focus areas

SUSTAINABILITY FOCUS AREAS

<ul style="list-style-type: none"> Economic Performance 1. INR 2,673.89 million of economic value was retained in FY 2021-22. 2. INR 73.08 million was spent on community investments. 	<ul style="list-style-type: none"> Governance Risks & Compliance Internal Compliance scoring has been computed as per the established scoring methodology and improvement plan is in place 	<ul style="list-style-type: none"> Energy and GHG Emissions 1. Energy Intensity at 54.03 (GJ/Million Minutes Produced) achieving 16% reduction against FY 19-20 2. GHG Emission (Scope 1&2) Intensity at 750 (tCO2e/Million Minutes Produced) achieving 30.4% reduction against FY 19-20 3. 28% of total energy consumption is from renewable sources 	<ul style="list-style-type: none"> Water & Effluents 1. Water treatment efficiency increased by 63% compared to the average of the last three financial years 2. 84% of treated water recycled and reused 	<ul style="list-style-type: none"> Materials 1. 84% of fabric ordered is composed of renewable material 2. 91% of critical fabric, yarn and elastic suppliers are OEKO-TEX certified
<ul style="list-style-type: none"> Product Stewardship 1. 93% of the total packaging materials consisted of renewable materials 2. 53% of the total packaging materials consisted of recycled materials 	<ul style="list-style-type: none"> Responsible Supply Chain 1. 90% of the budget spent on local procurement of raw materials 2. Responsible Sourcing policy has been established 3. RSL implementation and monitoring plan established 	<ul style="list-style-type: none"> Occupational Health & Safety 1. 84.43 million safe working hours with no LTA 2. 0.5 safety training index 3. Waste stream traceability conducted for all hazardous waste handler sites 	<ul style="list-style-type: none"> Diversity and Equal Opportunity 1. 87% key staff retention 2. 100% sensitization towards prevention of Sexual Harassment and awareness among all employees including contract employees 	

Source: Company

Exhibit 8: New launches by Jockey

JOCKEY - NEW LAUNCHES

Style No. UM45 Leisure Jeans

Style No. MV40 Performance Jacket

Style No. AM28 Track Pants

Style No. RX72 Shorts

Style No. MW72 Performance Shorts

Source: Company

Valuation and view

What has happened in the last 10 years?

- PAG has had a stupendous track record of revenue and earnings growth over the past decade.
- For the decade ended FY23, sales/EBITDA/PAT posted a ~18.5%/~17.2%/17.7% CAGR. Earnings growth was led by best-of-breed sales growth, with lower utilization of the margin lever. With sales of ~INR47.9b in FY23, the growth potential for the Innerwear and Athleisure segments in India remains strong.
- 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 revenue 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

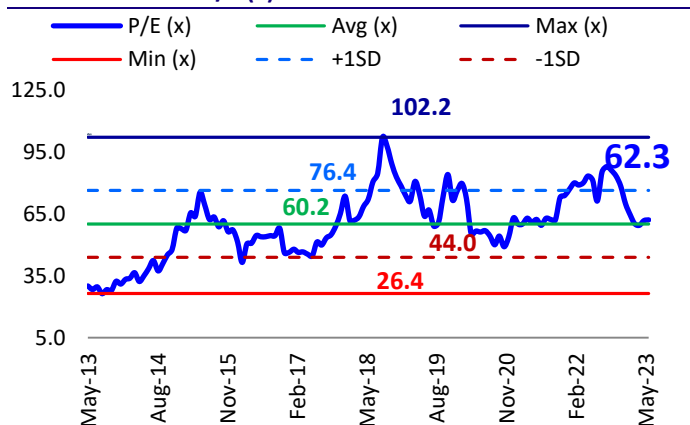
- There are no material changes to our model.
- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), PAG’s performance in FY22 was encouraging with strong 57.5% EPS growth YoY. This seems to have petered out to a sedate growth of 6.5% in FY23. If demand recovers in the next six months, we believe that the company can still grow its earnings by ~20% over the next two years.
- PAG’s medium-term earnings prospects have improved because of investments made in distribution, designs, and technology. RoCE is also likely to be ~45% after falling to the late 30s in FY20 and FY21. However, the valuation at 53x FY25E EPS is expensive, leading us to reiterate our Neutral rating on the stock with a **TP of INR37,200**.

Exhibit 9: We cut our FY24/FY25 EPS estimates by ~2.5% each

(INR m)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	53,630	62,019	55,084	63,713	-2.6	-2.7
EBITDA	10,475	12,862	10,699	13,270	-2.1	-3.1
PAT	6,914	8,644	7,098	8,863	-2.6	-2.5

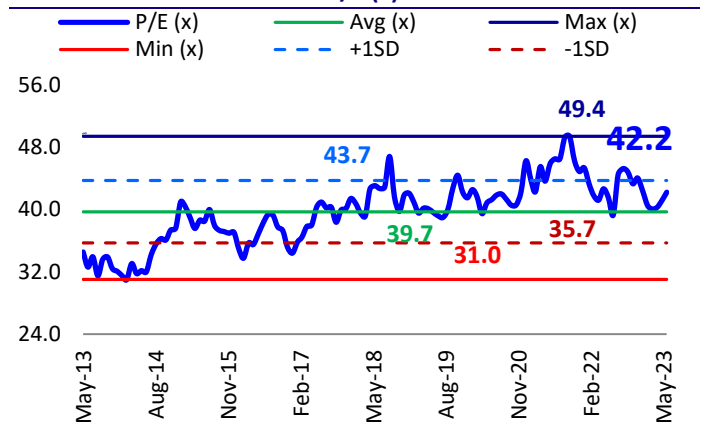
Source: Company, MOFSL

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	2023	2024E	2025E
Net Sales	25,514	28,522	29,454	28,330	38,865	47,886	53,630	62,019
Change (%)	19.9	11.8	3.3	-3.8	37.2	23.2	12.0	15.6
Gross Profit	14,640	16,555	16,346	15,690	21,775	26,207	30,301	35,351
Margin (%)	57.4	58.0	55.5	55.4	56.0	54.7	56.5	57.0
Other operating expenditure	9,234	10,386	11,020	10,424	13,920	17,579	19,826	22,489
EBITDA	5,407	6,169	5,326	5,266	7,855	8,627	10,475	12,862
Change (%)	30.8	14.1	-13.7	-1.1	49.2	9.8	21.4	22.8
Margin (%)	21.2	21.6	18.1	18.6	20.2	18.0	19.5	20.7
Depreciation	280	311	614	629	655	781	881	1,172
Int. and Fin. Ch.	166	163	339	297	322	413	565	475
Other Inc.- Rec.	215	364	246	195	210	147	215	341
PBT	5,175	6,060	4,620	4,534	7,088	7,581	9,244	11,556
Change (%)	31.1	17.1	-23.8	-1.9	56.3	7.0	21.9	25.0
Tax	1,705	2,121	1,188	1,128	1,722	1,869	2,329	2,912
Tax Rate (%)	33.0	35.0	25.7	24.9	24.3	24.6	25.2	25.2
Adjusted PAT	3,470	3,939	3,432	3,406	5,365	5,712	6,914	8,644
Change (%)	30.3	13.5	-12.9	-0.8	57.5	6.5	21.0	25.0
Margin (%)	13.6	13.8	11.7	12.0	13.8	11.9	12.9	13.9
Reported PAT	3,470	3,939	3,432	3,406	5,365	5,712	6,914	8,644

Balance Sheet								(INR m)
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	112	112	112	112	112	112	112	112
Reserves	8,361	7,638	8,087	8,737	10,775	13,599	16,377	19,849
Net Worth	8,473	7,750	8,199	8,849	10,886	13,710	16,488	19,960
Loans	685	848	1,764	1,270	1,099	4,064	1,582	1,582
Capital Employed	9,158	8,598	9,963	10,119	11,985	17,774	18,070	21,542
Gross Block	3,048	3,982	5,364	5,481	5,977	7,586	10,586	13,586
Less: Accum. Deprn.	669	976	1,309	1,618	1,953	2,734	3,616	4,788
Net Fixed Assets	2,379	3,006	4,055	3,863	4,024	4,852	6,970	8,798
Capital WIP	585	72	287	279	653	1,505	1,505	1,505
Investments	2,180	0	0	0	0	0	0	0
Curr. Assets, L&A	8,979	10,427	10,787	12,835	16,356	20,521	20,708	24,099
Inventory	5,679	7,501	7,186	5,549	9,749	15,953	11,755	12,744
Account Receivables	1,480	1,238	738	1,371	1,651	1,461	2,498	2,889
Cash and Bank Balance	669	440	1,169	4,350	2,835	81	4,051	6,143
Others	1,152	1,247	1,694	1,564	2,122	3,026	2,404	2,324
Curr. Liab. and Prov.	4,855	4,783	5,165	6,879	9,084	9,154	11,164	12,910
Account Payables	1,363	1,220	938	2,175	3,628	2,876	4,114	4,758
Other Liabilities	3,216	3,403	3,953	4,504	5,198	5,955	6,462	7,473
Provisions	276	159	273	200	258	322	588	680
Net Curr. Assets	4,123	5,644	5,622	5,956	7,272	11,367	9,544	11,189
Def. Tax Liability	110	125	2	-22	-36	-51	-51	-51
Appl. of Funds	9,158	8,598	9,963	10,119	11,985	17,774	18,070	21,542

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)								
EPS	311.1	353.2	307.7	305.3	481.0	512.2	619.9	774.9
Cash EPS	336.2	381.0	362.7	361.8	539.7	582.2	698.9	880.1
BV/Share	759.6	694.8	735.1	793.3	976.0	1,229.2	1,478.2	1,789.5
DPS	131	344	161	250	370	250	371	464
Payout incldg DDT (%)	46.8	115.4	79.1	81.9	76.9	48.8	70.0	70.0
Valuation (x)								
P/E	132.2	116.5	133.7	134.7	85.5	80.3	66.4	53.1
Cash P/E	122.4	108.0	113.4	113.7	76.2	70.7	58.9	46.7
EV/Sales	17.9	16.1	15.6	16.1	11.8	9.7	8.5	7.3
EV/EBITDA	84.5	74.4	86.3	86.6	58.2	53.6	43.6	35.3
P/BV	54.2	59.2	56.0	51.9	42.2	33.5	27.8	23.0
Dividend Yield (%)	0.3	0.8	0.4	0.6	0.9	0.6	0.9	1.1
Return Ratios (%)								
Asset Turn	2.8	3.3	3.0	2.8	3.2	2.7	3.0	2.9
Leverage	1.1	1.1	1.2	1.1	1.1	1.3	1.1	1.1
Net Margin	13.6	13.8	11.7	12.0	13.8	11.9	12.9	13.9
RoE	41.0	50.8	41.9	38.5	49.3	41.7	41.9	43.3
RoCE	42.9	45.6	39.7	36.1	50.7	40.5	40.9	45.4
RoIC	55.9	55.2	42.2	49.8	77.9	47.9	50.0	66.2
Working Capital Ratios								
Asset Turnover (x)	3.1	3.2	3.2	2.8	3.5	3.2	3.0	3.1
Debtor Days	19	17	12	14	14	12	13	16
Creditor Days	18	17	13	20	27	25	24	26
Inventory Days	85	84	91	82	72	98	94	72
Leverage Ratio								
Debt/Equity (x)	0.1	0.1	0.2	0.1	0.1	0.3	0.1	0.1

Cash Flow Statement								(INR m)
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Profit before Tax	5,175	6,060	4,620	4,534	7,088	7,581	9,244	11,556
Depreciation	280	311	614	629	655	781	881	1,172
Other Non Cash & Non operating activities	46	-361	179	304	186	308	350	133
Incr in WC	690	-1,657	1,024	2,751	-2,910	-6,782	5,794	447
Direct Taxes Paid	-1,645	-2,056	-1,270	-1,259	-1,750	-1,904	-2,329	-2,912
CF from Operations	4,546	2,297	5,167	6,959	3,269	-16	13,939	10,396
Incr in FA	-565	-374	-744	-135	-979	-1,638	-3,000	-3,000
Free Cash Flow	3,981	1,923	4,423	6,824	2,290	-1,654	10,939	7,396
Pur of Investments	-1,872	2,216	400	-3,950	2,050	1,900	0	0
Others	338	65	-319	3,967	-1,891	-1,259	215	341
CF from Invest.	-2,099	1,907	-663	-119	-820	-997	-2,785	-2,659
Issue of Shares	0	0	0	0	0	0	0	0
Incr in Debt	0	275	-470	-321	0	1,916	-2,482	0
Dividend Paid	-1,624	-4,545	-2,716	-2,787	-3,347	-2,900	-4,137	-5,171
Others	-359	-163	-589	-551	-617	-757	-565	-475
CF from Fin. Activity	-1,984	-4,433	-3,775	-3,659	-3,964	-1,741	-7,183	-5,646
Incr/Decr of Cash	463	-228	729	3,181	-1,515	-2,754	3,970	2,091
Add: Opening Balance	206	669	440	1,169	4,350	2,835	81	4,051
Closing Balance	669	440	1,169	4,350	2,835	81	4,051	6,143

E: MOFSL Estimates

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