

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USD\$)	420.4 / 5
52-Week Range (INR)	50450 / 34953
1, 6, 12 Rel. Per (%)	-4/-15/-31
12M Avg Val (INR M)	1024

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	47.9	48.3	54.3
Sales Gr. (%)	23.2	0.8	12.5
EBITDA	8.6	9.6	11.1
EBITDA Margin (%)	18.0	19.8	20.5
Adj. PAT	5.7	6.2	7.4
Adj. EPS (INR)	512.2	557.1	667.3
EPS Gr. (%)	6.5	8.8	19.8
BV/Sh.INR	1229.2	1453.0	1721.1

Ratios

RoE (%)	41.7	38.3	38.8
RoCE (%)	40.5	37.0	40.6
Payout (%)	48.8	70.0	70.0

Valuations

P/E (x)	74.0	68.0	56.8
P/BV (x)	30.8	26.1	22.0
EV/EBITDA (x)	49.5	43.9	37.6
Div. Yield (%)	0.7	0.9	1.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	45.1	46.1	46.1
DII	23.6	22.0	19.5
FII	22.0	22.0	25.3
Others	9.4	9.9	9.1

FII Includes depository receipts

CMP: INR37,687 TP: INR37,400 (-1%) Neutral

Weak results; recovery uncertain for now

- PAG reported a revenue decline (8.4% YoY/8.7% QoQ) in 2QFY24 due to subdued consumer demand and a slowdown across all categories. Volume also declined by 8.8% YoY in 2Q and 7.6% YoY in 1HFY24.
- GP margin contracted 130bp YoY but improved 240bp QoQ, aided by stable raw material costs. EBITDA improved YoY/QoQ on operational efficiency. The management aims to maintain EBITDA margins around 19-21% in FY24.
- The medium-term sales and earnings outlook remains uncertain for PAG. We maintain our Neutral rating on the stock due to elevated valuations.

Weak revenue growth; improvement in margin

- Sales declined 8.4% YoY to INR11,251m (est. INR12,224m) in 2QFY24.
- EBITDA remained flat YoY at INR2,335m (est. INR2,396m).
- PBT was down 6.2% YoY at INR,1994m (est. INR2,110m).
- Adj. PAT fell 7.3% YoY to INR1,503m (est. INR1,580m).
- Gross margin contracted ~130bp YoY to 55.7% (est. 55.6%).
- As a percentage of sales, lower employee expenses (-60bp YoY to 18.1%) and other expenses (-200bp YoY to 16.8%) led to EBITDA margin expansion of ~140bp YoY to 20.8% (est. 19.6%).

Highlights from the management commentary

- The management observes positive consumer demand trends in the economy and rural sectors due to festivities, but no notable improvement in urban and mid-premium segments.
- The slowdown has affected all categories, with no noticeable improvement in the urban and mid-premium segments. However, women's innerwear, particularly the innerwear and bra category, performed relatively better.
- The e-commerce channel saw a robust 31% growth, reflecting evolving consumer habits and a commitment to expanding online presence.
- PAG expects advertising expenses in the usual range of 4%-5% in 2H; they are usually low in 1H and high in 2H.
- The management has retained EBITDA margin guidance range of 19-21%.

Valuation and view

- Changes to our model have led to a ~4.4%/~5.9% reduction in FY24/FY25 EPS estimates due to lower volume in 1HFY24 and persistent near-term demand challenges.
- 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 half of the year, we believe that the company can still grow its earnings by ~14% 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 ~40%, after falling to the late 30s in FY20 and FY21. However, given high valuation at 55x FY25E EPS, we retain Neutral on PAG with a revised **TP of INR37,400**.

Pratik Prajapati – Research Analyst (Pratik.Prajapati@MotilalOswal.com)

Tanu Jindal – Research Analyst (Tanu.Jindal@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR m)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	13,413	12,282	12,233	9,691	12,324	11,251	13,260	11,415	47,886	48,251	12,224	-8.0%
YoY change (%)	167.4	13.3	2.8	-12.8	-8.1	-8.4	8.4	17.8	23.2	0.8	-2.6	
Gross Profit	7,311	6,999	6,408	5,488	6,562	6,262	7,412	6,350	26,207	26,586	6,796	-7.9%
Gross margin (%)	54.5	57.0	52.4	56.6	53.2	55.7	55.9	55.6	54.7	55.1	55.6	
EBITDA	2,978	2,379	1,928	1,343	2,419	2,335	2,626	2,188	8,627	9,568	2,396	-2.5%
Margins (%)	22.2	19.4	15.8	13.9	19.6	20.8	19.8	19.2	18.0	19.8	19.6	
YoY change	770.7	1.9	-23.1	-49.7	-18.8	-1.8	36.2	62.9	9.8	10.9	0.7	
Depreciation	180	188	200	213	210	246	230	221	781	907	216	
Interest	85	92	100	136	127	112	120	121	413	480	119	
Other Income	33	27	16	71	19	17	24	23	147	82	49	
PBT	2,746	2,125	1,645	1,065	2,100	1,994	2,300	1,869	7,581	8,263	2,110	-5.5%
Tax	675	504	407	282	517	491	570	471	1,869	2,049	530	
Rate (%)	24.6	23.7	24.8	26.5	24.6	24.6	24.8	25.2	24.6	24.8	25.1	
PAT	2,070	1,621	1,237	784	1,584	1,503	1,730	1,398	5,712	6,214	1,580	-4.9%
YoY change (%)	1,790.9	1.0	-29.1	-58.9	-23.5	-7.3	39.8	78.4	6.5	8.8	-2.5	

Key Performance Indicators

Y/E MARCH	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	2Q
Volume growth (%)	150.0	1.0	-11.0	-15.0	-11.5	-8.8
Realisation growth (%)	17.4	12.3	13.8	2.2	3.4	0.4
2Y CAGR (%)						
Volume (2Y average)	110.0	22.0	6.5	-4.0	69.3	-3.9
Sales	117.0	28.8	14.9	4.9	56.8	1.9
EBITDA	LP	19.9	-7.7	-11.1	165.9	0.0
PAT	LP	20.9	-10.3	-17.7	280.3	-3.2
% of Sales						
COGS	45.5	43.0	47.6	43.4	46.8	44.3
Employee Expenses	16.1	18.7	17.6	22.7	16.9	18.1
Other Expenses	16.2	18.9	19.1	20.0	16.7	16.8
Depreciation	1.3	1.5	1.6	2.2	1.7	2.2
YoY change (%)						
COGS	187.8	7.8	4.7	-6.8	-5.6	-5.6
Employee Expenses	41.4	30.1	13.0	9.9	-3.4	-11.4
Other Expenses	111.8	26.1	21.0	0.8	-5.4	-18.6
Other Income	-7.4	-50.1	-77.0	44.6	-42.5	-37.6
EBIT	1,428.4	1.0	-26.2	-54.9	-21.1	-4.6

E: MOFSL Estimates



Highlights from management interaction

Performance and demand environment

- The management observes positive consumer demand in the economy and rural sectors due to festivities, but no notable improvements in urban and mid-premium segments.
- Due to macro headwinds and challenging market conditions, revenue/volume declined 8.4%/8.8% in 2Q.
- In 1HFY24, revenue declined 7.6% and volume fell 10.2% YoY.
- There is a recorded decline in volume growth at the EBO channel level.
- Excess inventory accumulation in the industry has led to unsustainable business practices, impacting the overall ecosystem.
- The slowdown has affected all categories, with no noticeable improvements in the urban and mid-premium segments. However, women's innerwear, particularly the innerwear and bra category, performed relatively better.
- The management focuses on amplifying general trade distribution, expanding large format stores and exclusive brand outlets, expanding D2C business, enhancing customer experience, and fortifying product portfolio.
- The quantity and ticket size of purchases have decreased, mirroring the industry-wide pressure on volumes. Overall industry spending has risen, especially in healthcare and education, without a substantial increase in salaries.
- The e-commerce channel experienced a significant 31% growth, reflecting evolving consumer purchasing habits and a commitment to expanding online presence.
- Online business growth is evident across all categories, with the online business expected to reach high teens in the next four to five years.

Distribution channels and supply chain

- Distribution network expansion aligns with company plans, boasting 110,000 MBOs, 1,370 EBOs (addition of 40 In Q2), and 2,400+ large format stores as of Sep'23. Strategic focus areas include metros and tier two/three cities.
- There are total 1,372+ EBOs with 52/78 exclusive for woman/children.
- Presence over 118k+ MBOs.
- Expanding its footprint to 2,791+ cities/Towns.

Costs and margins

- Margin improvement in the quarter is attributed to rigorous cost control measures, despite prolonged price stability. While raw material prices have decreased, the weighted average cost basis means it will take time for these benefits to reflect in the P/L statement.
- Advertising expenses would be in the usual range of 4%-5% in the second half, with the first half on the lower side and the second half on the higher side.
- The management has upheld the EBITDA margin guidance range of 19% to 21%.

Other points

- The base quarter numbers are restated due to the outsourcing partner supplying raw materials, converting them into finished goods, and sending them back to the company.

- Previously considered as income from operations, it is now netted off against all associated costs.
- Inventory duration reduced to 105 days by Sep'23 end, down from 150 days in 4QFY23.
- The decline aligns with industry trends, and the company has not lost any market share to its peers.

Key exhibits

Exhibit 1: Overall volumes down 8.8% YoY on slow demand

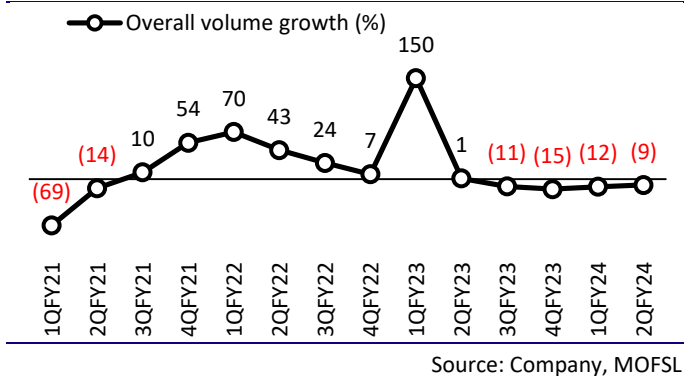


Exhibit 2: Sales declined 8.4% YoY to INR11.3b

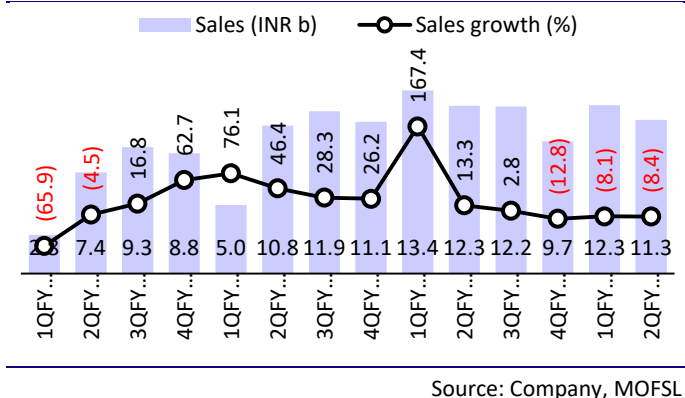


Exhibit 3: Gross margin contracted ~130bp YoY to 55.7%

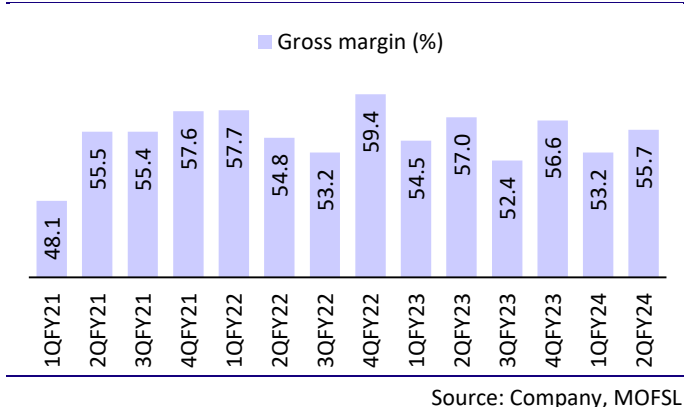


Exhibit 4: EBITDA margin expanded ~140bp YoY at 20.8%

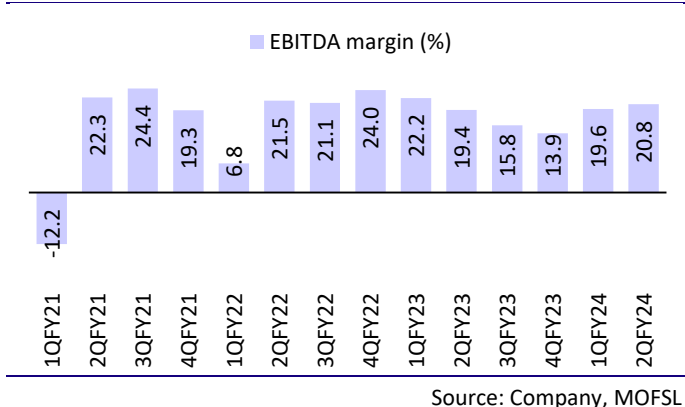


Exhibit 5: EBITDA declined 1.8% YoY to INR2.3b

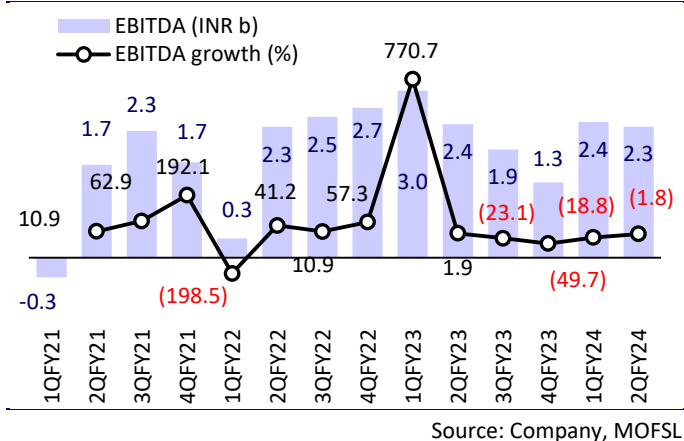


Exhibit 6: Adj. PAT declined 7.3% YoY to INR1.5b

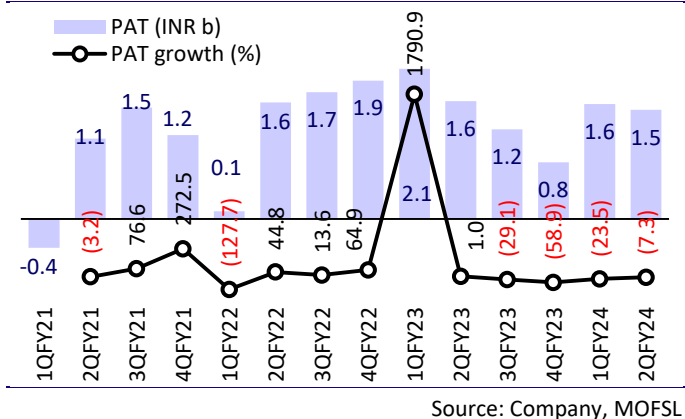


Exhibit 7: Sustainability focus areas

OUR SUSTAINABILITY TARGETS

<h3>Economic Performance</h3> <ul style="list-style-type: none"> To be a 1 billion USD (revenue) company by FY 2026 through increased market presence, diversified product portfolio and innovation, and R&D Commitment to introduce safety, climate, water, and inclusion nudge factors in investment evaluation 	<h3>Governance, Risk, and Compliance</h3> <ul style="list-style-type: none"> Computation of compliance score on the established Compliance Score System and improvement to attain maximum score by FY 2025 	<h3>Energy and GHG Emissions</h3> <ul style="list-style-type: none"> Reduce emissions intensity by 15% by FY 2025 and 30% by FY 2030, in alignment with India's NDCs against the FY 2019-20 baseline Reduce purchase of grid electricity by 17% through Renewable Energy by FY 2030 against FY 2019-20 baseline
<h3>Water and Effluents</h3> <ul style="list-style-type: none"> Improve water-use efficiency by 20% by FY 2030 Reduction in Fresh Water by 20% by FY 2025 	<h3>Materials</h3> <ul style="list-style-type: none"> All vendors/suppliers (Fabric, Elastic, Yarn) will be Oeko-Tex Certified by June 2022 100% Recycling and Management of Single Use plastics in packaging by December 2022 	<h3>Responsible Supply Chain</h3> <ul style="list-style-type: none"> Implementation of RSL policy by March 2023 Sustainability Assessment will be conducted for all critical suppliers from FY 2021-22
<h3>Occupational Health and Safety</h3> <ul style="list-style-type: none"> Zero Waste to Landfill with 100% traceability by FY 2024 Phasing out all Restricted Substances in Manufacturing and Supply Chain in Compliance with ZDHC (Level 3) by FY 2024 100% implementation of WASH Pledge and Third-Party Audit 	<h3>Product Stewardship</h3> <ul style="list-style-type: none"> Improve design for extended life Continue to Increase the use of Renewable/Sustainable/Recycled Materials All new development of vendors/suppliers (Fabric, Elastic, Yarn) will be OEKO-TEX certified by June 2022 	<h3>Diversity and Equal Opportunity</h3> <ul style="list-style-type: none"> Assess and Maintain Gender Pay Parity 100% sensitization towards prevention of Sexual Harassment and awareness to all employees including contract employees

Source: Company

Exhibit 8: New launches by Jockey

JOCKEY - NEW LAUNCHES

Style No. AM49 Track pant

Style No. UM54 Hoodie

Style No. RX72 Shorts

Style No. RX76 Pyjama

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 period 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 robust.
- Various factors have played an important role in driving impressive growth in financial metrics over the past decade, such as a) focus on revenue growth, b) the ability to manage a large labor force, c) design strength, d) the successful rollout of outsourcing, e) effective branding, f) premiumization with a value-for-money proposition, and g) the rapid expansion of EBO stores, facilitating cross-selling.

Our view on the stock

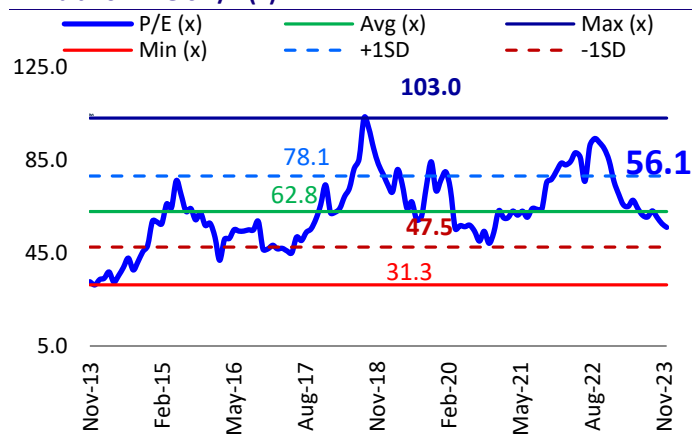
- Changes to our model have led to a ~4.4%/~5.9% reduction in FY24/FY25 EPS estimates because of declining volume trend in 1HFY24 and near-term demand challenges.
- After a few years of an earnings decline (-4.3% PBT CAGR over FY18-21), PAG’s performance in FY22 was encouraging with strong 57.5% EPS growth YoY. This seems to have petered out to a sedate growth of 6.5% in FY23. If demand recovers in the next half of the year, we believe that the company can still grow its earnings by ~14% 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 ~40%, after falling to the late 30s in FY20 and FY21. However, the valuation at 55x FY25E EPS is expensive; hence, we reiterate our Neutral rating on the stock with a revised **TP of INR37,400**.

Exhibit 9: We cut our FY24/FY25 EPS estimates by ~4.4/5.9% each

(INRm)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	48,251	54,291	50,893	57,827	-5.2	-6.1
EBITDA	9,568	11,122	9,827	11,629	-2.6	-4.4
PAT	6,214	7,443	6,503	7,913	-4.4	-5.9

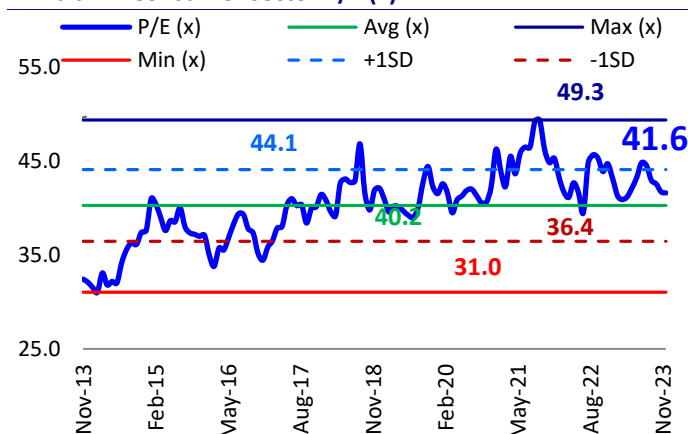
Source: Company, MOFSL

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	48,251	54,291	
Change (%)	19.9	11.8	3.3	-3.8	37.2	23.2	0.8	12.5	
Gross Profit	14,640	16,555	16,346	15,690	21,775	26,207	26,586	30,511	
Margin (%)	57.4	58.0	55.5	55.4	56.0	54.7	55.1	56.2	
Other operating expenditure	9,234	10,386	11,020	10,424	13,920	17,579	17,019	19,390	
EBITDA	5,407	6,169	5,326	5,266	7,855	8,627	9,568	11,122	
Change (%)	30.8	14.1	-13.7	-1.1	49.2	9.8	10.9	16.2	
Margin (%)	21.2	21.6	18.1	18.6	20.2	18.0	19.8	20.5	
Depreciation	280	311	614	629	655	781	907	955	
Int. and Fin. Ch.	166	163	339	297	322	413	480	514	
Other Inc.- Rec.	215	364	246	195	210	147	82	271	
PBT	5,175	6,060	4,620	4,534	7,088	7,581	8,263	9,924	
Change (%)	31.1	17.1	-23.8	-1.9	56.3	7.0	9.0	20.1	
Tax	1,705	2,121	1,188	1,128	1,722	1,869	2,049	2,481	
Tax Rate (%)	33.0	35.0	25.7	24.9	24.3	24.6	24.8	25.0	
Adjusted PAT	3,470	3,939	3,432	3,406	5,365	5,712	6,214	7,443	
Change (%)	30.3	13.5	-12.9	-0.8	57.5	6.5	8.8	19.8	
Margin (%)	13.6	13.8	11.7	12.0	13.8	11.9	12.9	13.7	
Reported PAT	3,470	3,939	3,432	3,406	5,365	5,712	6,214	7,443	

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	16,095	19,085	
Net Worth	8,473	7,750	8,199	8,849	10,886	13,710	16,207	19,197	
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	17,789	20,779	
Gross Block	3,048	3,982	5,364	5,481	5,977	7,586	10,586	13,586	
Less: Accum. Depn.	669	976	1,309	1,618	1,953	2,734	3,641	4,596	
Net Fixed Assets	2,379	3,006	4,055	3,863	4,024	4,852	6,945	8,990	
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	19,332	21,534	
Inventory	5,679	7,501	7,186	5,549	9,749	15,953	10,576	11,156	
Account Receivables	1,480	1,238	738	1,371	1,651	1,461	2,247	2,529	
Cash and Bank Balance	669	440	1,169	4,350	2,835	81	4,246	5,729	
Others	1,152	1,247	1,694	1,564	2,122	3,026	2,263	2,121	
Curr. Liab. and Prov.	4,855	4,783	5,165	6,879	9,084	9,154	10,044	11,301	
Account Payables	1,363	1,220	938	2,175	3,628	2,876	3,701	4,165	
Other Liabilities	3,216	3,403	3,953	4,504	5,198	5,955	5,814	6,542	
Provisions	276	159	273	200	258	322	529	595	
Net Curr. Assets	4,123	5,644	5,622	5,956	7,272	11,367	9,288	10,233	
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	17,789	20,779	

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	557.1	667.3
Cash EPS	336.2	381.0	362.7	361.8	539.7	582.2	638.4	752.9
BV/Share	759.6	694.8	735.1	793.3	976.0	1,229.2	1,453.0	1,721.1
DPS	131	344	161	250	370	250	333	399
Payout incldg DDT (%)	46.8	115.4	79.1	81.9	76.9	48.8	70.0	70.0
Valuation (x)								
P/E	121.8	107.3	123.2	124.1	78.8	74.0	68.0	56.8
Cash P/E	112.7	99.5	104.5	104.8	70.2	65.1	59.4	50.3
EV/Sales	16.5	14.8	14.4	14.8	10.8	8.9	8.7	7.7
EV/EBITDA	77.8	68.6	79.5	79.7	53.6	49.5	43.9	37.6
P/BV	49.9	54.5	51.6	47.8	38.8	30.8	26.1	22.0
Dividend Yield (%)	0.3	0.9	0.4	0.7	1.0	0.7	0.9	1.1
Return Ratios (%)								
Asset Turn	2.8	3.3	3.0	2.8	3.2	2.7	2.7	2.6
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	13.7
RoE	41.0	50.8	41.9	38.5	49.3	41.7	38.3	38.8
RoCE	42.9	45.6	39.7	36.1	50.7	40.5	37.0	40.6
RoIC	55.9	55.2	42.2	49.8	77.9	47.9	46.1	59.6
Working Capital Ratios								
Asset Turnover (x)	3.1	3.2	3.2	2.8	3.5	3.2	2.7	2.8
Debtor Days	19	17	12	14	14	12	14	16
Creditor Days	18	17	13	20	27	25	25	26
Inventory Days	85	84	91	82	72	98	100	73
Leverage Ratio								
Debt/Equity (x)	0.1	0.1	0.2	0.1	0.1	0.3	0.1	0.1

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
(INR m)								
Profit before Tax	5,175	6,060	4,620	4,534	7,088	7,581	8,263	9,924
Depreciation	280	311	614	629	655	781	907	955
Other Non Cash & Non operating activities	46	-361	179	304	186	308	398	243
Incr in WC	690	-1,657	1,024	2,751	-2,910	-6,782	6,244	538
Direct Taxes Paid	-1,645	-2,056	-1,270	-1,259	-1,750	-1,904	-2,049	-2,481
CF from Operations	4,546	2,297	5,167	6,959	3,269	-16	13,762	9,178
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	10,762	6,178
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	82	271
CF from Invest.	-2,099	1,907	-663	-119	-820	-997	-2,918	-2,729
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	-3,718	-4,453
Others	-359	-163	-589	-551	-617	-757	-480	-514
CF from Fin. Activity	-1,984	-4,433	-3,775	-3,659	-3,964	-1,741	-6,679	-4,967
Incr/Decr of Cash	463	-228	729	3,181	-1,515	-2,754	4,165	1,483
Add: Opening Balance	206	669	440	1,169	4,350	2,835	81	4,246
Closing Balance	669	440	1,169	4,350	2,835	81	4,246	5,729

E: MOFSL Estimates

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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