

Page Industries

BSE SENSEX	S&P CNX
35,142	10,576
Bloomberg	PAG IN
Equity Shares (m)	11
M.Cap.(INRb)/(USDb)	310.6 / 4.3
52-Week Range (INR)	36336 / 17280
1, 6, 12 Rel. Per (%)	-5/18/19
Avg Val, INRm/ Vol m	751
Free float (%)	51.7

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	25.5	29.4	35.9
EBITDA	5.4	6.5	8.2
PAT	3.5	4.3	5.5
EPS (INR)	311.1	382.7	491.7
Gr. (%)	30.3	23.0	28.5
BV/Sh (INR)	759.6	855.3	1052.0
RoE (%)	41.0	44.7	46.7
RoCE (%)	42.9	45.5	50.3
P/E (x)	89.5	72.8	56.6
EV/EBITDA (x)	57.0	47.5	37.4

Estimate change

TP change

Rating change



CMP: INR 27,847

TP: INR27,500(-1%)

Neutral

Earnings slow down after growing strongly for nine quarters...

...partly due to festive timing mismatch

- **PAGE's net sales grew 10.4% YoY** to INR6.9b (our estimate: INR7.4b) in 2QFY19. EBITDA grew by 11.4% YoY to INR1.4b (our estimate: INR1.7b) and adj. PAT by 10.5% YoY to INR926m (our estimate: INR1.1b).
- **Overall volume growth was flattish YoY** in 2QFY19. Men's innerwear, women's innerwear and sportswear segments grew by 6.3%, 11.2% and 17.5% YoY, respectively. Volumes in men's innerwear segment declined by 3.2% YoY, while those in women's innerwear and sportswear segments increased by 3.9% and 6.1% YoY, respectively.
- **1HFY19 performance:** Sales, EBITDA and adj. PAT grew 13.9%, 25.4% and 28.3% YoY, respectively. EBITDA margin expanded 200bp YoY to 20.7%. For 2HFY19, we expect sales/EBITDA/adj. PAT growth of 16.6%/15.1%/18.1% YoY.
- **Valuation and view:** After delivering nine straight quarters of strong performance, PAG exhibited deceleration in earnings growth, part of which can be attributed to the timing mismatch of the festive season in FY19 compared to the previous year. Consequently, we lower our EPS forecasts for FY19/20 by ~6%. PAG remains one of the compelling investment cases in the Indian consumer space, with better earnings growth potential relative to peers and the ongoing balance sheet improvement. The special dividend (INR110 per share) is also encouraging and an indication that PAG is possibly revising its stated dividend payout policy of 50% (which we had pointed out earlier was inadequate, given the strong ongoing cash flow generation). Nevertheless, near-term valuations at 56.6x FY20E EPS leave little room for upside from a one-year perspective. Note that valuations are at premium levels, despite assuming a healthy 26% EPS CAGR over FY18-20. We, thus, believe that slower-than-expected execution going forward can pose downside risks. Based on the aforementioned proposition, we maintain our **Neutral** rating with a target price of INR27,500 (50x Sep'20E EPS).

Quarterly Performance

Y/E MARCH	FY18				FY19				FY18		FY19E		FY19	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	25,520	29,395	25,520	29,395	2QE	
Net Sales	6,969	6,257	6,210	6,084	8,153	6,908	7,303	7,032	25,520	29,395	25,520	29,395	7,368	-6.2%
YoY Change (%)	22.4	17.0	17.6	22.2	17.0	10.4	17.6	15.6	19.8	15.2	19.8	15.2	17.8	
COGS	3,187	2,651	2,760	2,275	3,672	2,913	3,246	2,897	10,873	12,728	10,873	12,728	3,196	
Gross Profit	3,782	3,606	3,450	3,809	4,481	3,994	4,057	4,135	14,647	16,667	14,647	16,667	4,172	-4.3%
Gross margin (%)	54.3	57.6	55.6	62.6	55.0	57.8	55.6	58.8	57.4	56.7	57.4	56.7	56.6	
Other Expenditure	2,410	2,324	2,162	2,341	2,588	2,566	2,505	2,514	9,236	10,174	9,236	10,174	2,476	
EBITDA	1,372	1,282	1,289	1,468	1,893	1,428	1,552	1,621	5,411	6,493	5,411	6,493	1,697	-15.8%
Margins (%)	19.7	20.5	20.8	24.1	23.2	20.7	21.3	23.0	21.2	22.1	21.2	22.1	23.0	
YoY Change	24.9	18.9	30.0	49.9	38.0	11.4	20.4	10.4	30.5	20.0	30.5	20.0	32.1	
Depreciation	67	68	70	76	72	77	78	93	280	320	280	320	76	
Interest	45	36	41	44	40	40	37	24	166	141	166	141	27	
Other Income	40	49	53	73	72	108	90	67	215	338	215	338	83	
PBT	1,301	1,227	1,231	1,421	1,852	1,420	1,527	1,571	5,180	6,370	5,180	6,370	1,676	-15.3%
Tax	441	389	397	479	608	494	504	497	1,705	2,102	1,705	2,102	553	
Rate (%)	33.9	31.7	32.2	33.7	32.8	34.8	33.0	31.6	32.9	33.0	32.9	33.0	33.0	
PAT	860	839	834	942	1,244	926	1,023	1,074	3,474	4,268	3,474	4,268	1,123	-17.5%
YoY Change (%)	25.5	21.5	32.6	39.9	44.8	10.5	22.7	14.0	29.8	22.8	29.8	22.8	33.6	

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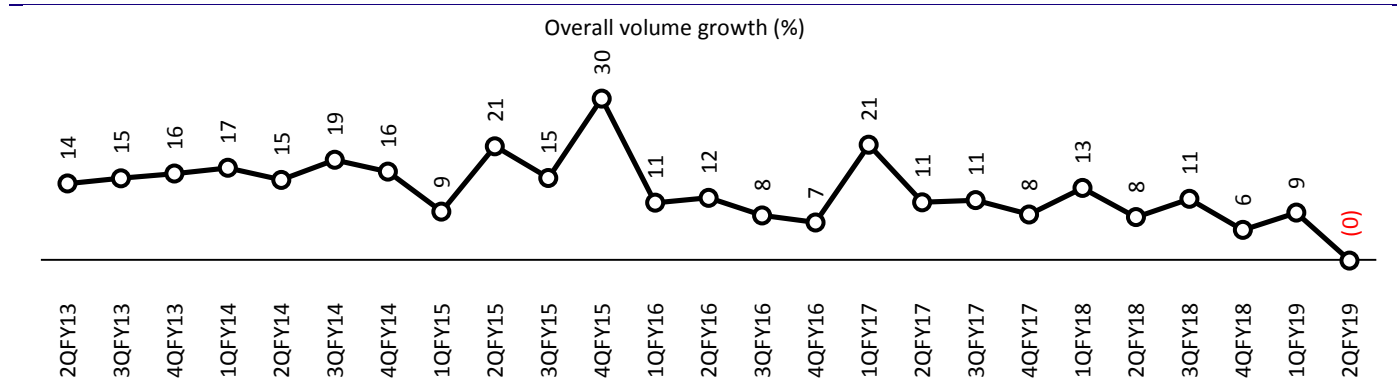
Operating metrics

Exhibit 1: Quarterly operational data

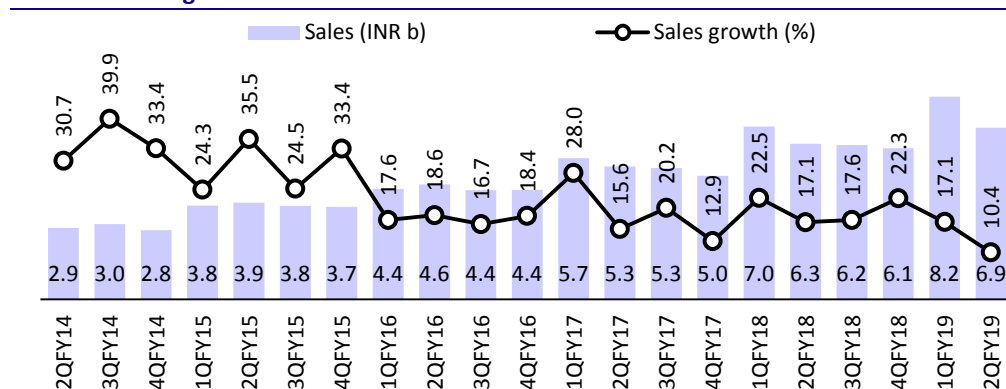
Volume ('000)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Men innerwear	23,179	19,510	19,550	26,260	24,016	21,770	19,380	27,890	23,250
Women innerwear	8,083	7,370	7,150	10,430	9,174	7,970	7,790	11,130	9,530
Sports+Socks	7,569	8,710	7,740	9,420	8,577	9,810	9,160	11,140	8,910
Speedo	76	40	170	250	81	110	200	260	110
Total	38,907	35,630	34,610	46,360	41,848	39,660	36,530	50,420	41,800
% YoY									
Men innerwear	10.4	2.0	10.5	10.6	3.6	11.6	(0.9)	6.2	(3.2)
Women innerwear	18.7	12.9	7.9	15.1	13.5	8.1	9.0	6.7	3.9
Sports+Socks	4.1	36.3	4.8	20.6	15.5	12.6	18.3	18.3	3.9
Speedo	20.6	32.8	(21.3)	(14.0)	7.1	175.0	17.6	4.0	35.9
Total	10.7	11.1	8.4	13.3	7.9	11.3	5.5	8.8	(0.1)
Sales value (INR m)									
Men innerwear	2,643	2,386	2,325	3,239	2,999	2,766	2,713	3,758	3,188
Women innerwear	1,069	998	920	1,436	1,278	1,128	1,130	1,638	1,421
Sports+Socks	1,532	1,807	1,559	2,029	1,840	2,178	2,023	2,461	2,115
Speedo	47	20	114	181	60	63	124	201	68
Total	5,291	5,212	4,919	6,885	6,177	6,135	5,990	8,058	6,792
% YoY									
Men innerwear	16.7	10.7	17.0	19.5	13.5	15.9	16.7	16.0	6.3
Women innerwear	22.1	17.0	12.1	24.0	19.6	13.1	22.8	14.1	11.2
Sports+Socks	9.3	32.0	14.2	25.7	20.1	20.5	29.7	21.2	15.0
Speedo	21.5	30.8	(24.5)	7.6	27.1	212.8	8.6	11.5	13.4
Total	15.5	18.6	13.7	21.8	16.7	17.7	21.8	17.0	10.0
Avg realization (INR/unit)									
Men innerwear	112	122	119	123	123	127	140	135	137
Women innerwear	130	135	129	138	137	142	145	147	149
Sports+Socks	202	208	201	215	211	222	221	221	237
Speedo	632	503	673	722	750	572	621	775	619
Total	134	146	142	149	145	155	164	160	162

Source: Company, MOSL

Exhibit 2: Overall volume growth for the quarter was flattish YoY

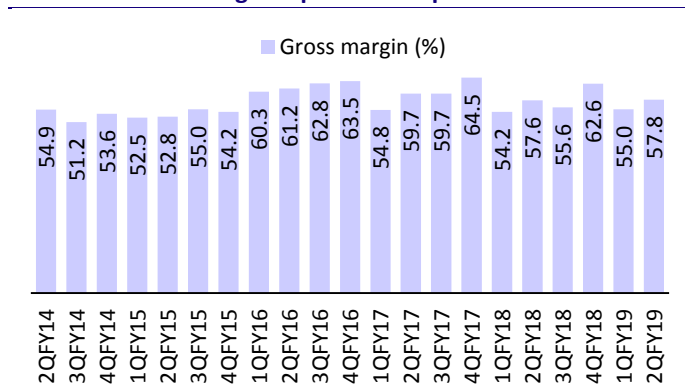


Source: Company, MOSL

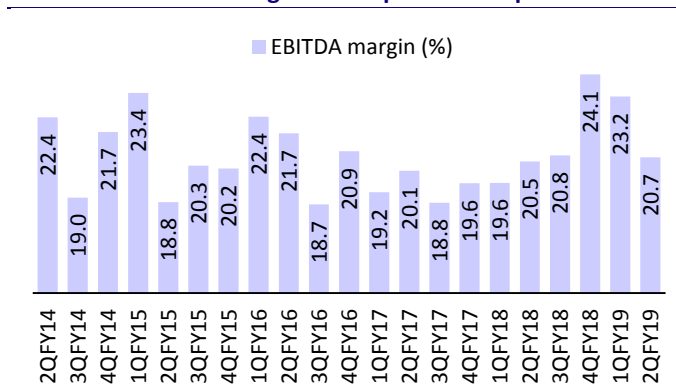
Exhibit 3: Sales grew 10.4% YoY to INR6.9b

Source: Company, MOSL

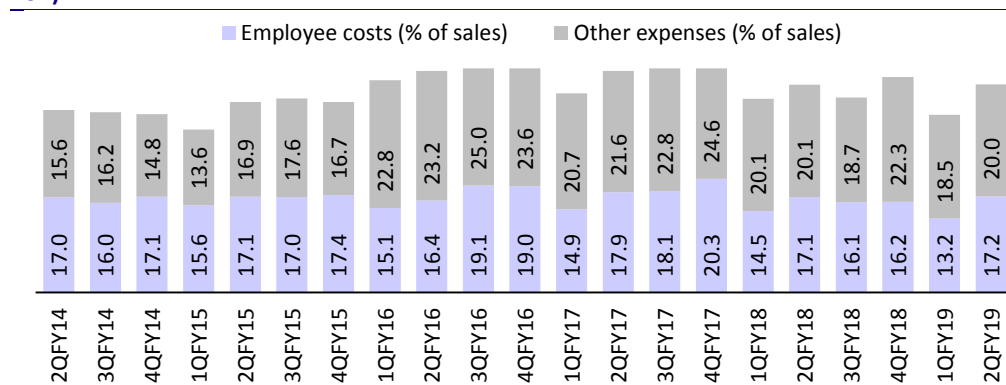
- **Gross margin expanded 20bp YoY to 57.8%.** Lower other expenses (-10bp YoY to 20% of sales) were offset by higher employee costs (+10bp YoY to 17.2%). EBITDA margin expanded 20bp YoY to 20.7%.

Exhibit 4: Gross margin expanded 20bp YoY to 57.8%...

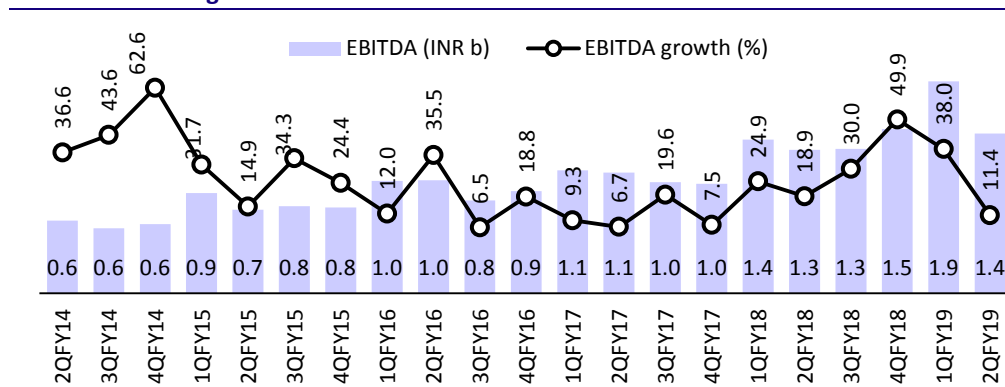
Source: Company, MOSL

Exhibit 5: ..EBITDA margin also expanded 20bp YoY to 20.7%

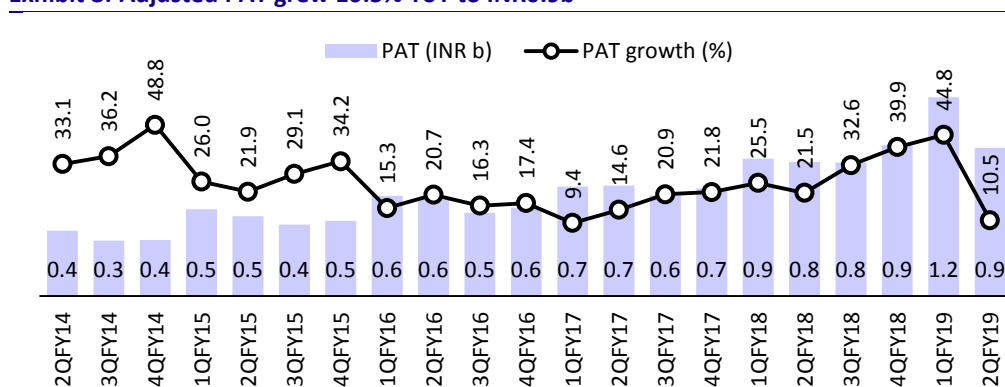
Source: Company, MOSL

Exhibit 6: Lower other expenses (-10bp YoY) were offset by higher employee costs (+10bp YoY)

Source: Company, MOSL

Exhibit 7: EBITDA grew 11.4% YoY to INR1.4b

Source: Company, MOSL

Exhibit 8: Adjusted PAT grew 10.5% YoY to INR0.9b

Source: Company, MOSL

Further takeaways

- Festive season delay is likely to have been one of the factors impacting volumes for 2QFY19.
- Volumes are expected to be back on track from 3QFY19. We expect double-digit volume growth.
- There has been a moderate 4-5% increase in yarn costs YoY toward the end of the quarter. Price increase (usually taken in December- January) is likely to offset some of the yarn cost increase in 4QFY19.
- Last year, the company had taken only 2-3% price increase because of low yarn costs. PAG now has pricing power to pass on yarn cost increase.
- Outsourcing proportion was flattish sequentially at around 28-29% and EBO sales were around 17-18% of total sales in 2QFY19.

Valuation and view

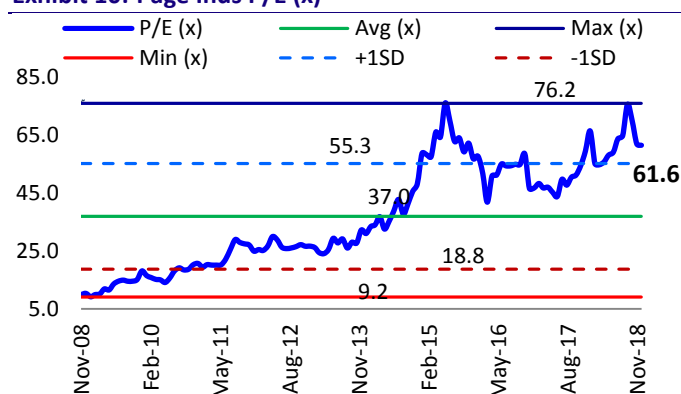
- After delivering nine straight quarters of strong performance, PAG exhibited deceleration in earnings growth, part of which can be attributed to the timing mismatch of the festive season in FY19 compared to the previous year. Consequently, we lower our EPS forecasts for FY19/20 by ~6%.
- PAG remains one of the compelling investment cases in the Indian consumer space, with better earnings growth potential relative to peers and the ongoing balance sheet improvement.
- The special dividend (INR110 per share) is also encouraging and an indication that PAG is possibly revising its stated dividend payout policy of 50% (which we had pointed out earlier was inadequate, given the strong ongoing cash flow generation).
- Nevertheless, near-term valuations at 56.6x FY20E EPS leave little room for upside from a one-year perspective. Note that valuations are at premium levels, despite assuming a healthy 26% EPS CAGR over FY18-20. We, thus, believe that slower-than-expected execution going forward can pose downside risks. Based on the aforementioned proposition, we maintain our **Neutral** rating with a target price of INR27,500 (50x Sep'20E EPS).

Exhibit 9: Changes in model have led to 6% downward revision in both FY19/20 EPS

	New		Old		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sales	29,395	35,906	29,966	37,377	-1.9%	-3.9%
EBITDA	6,493	8,201	6,863	8,694	-5.4%	-5.7%
PAT	4,268	5,484	4,534	5,826	-5.9%	-5.9%

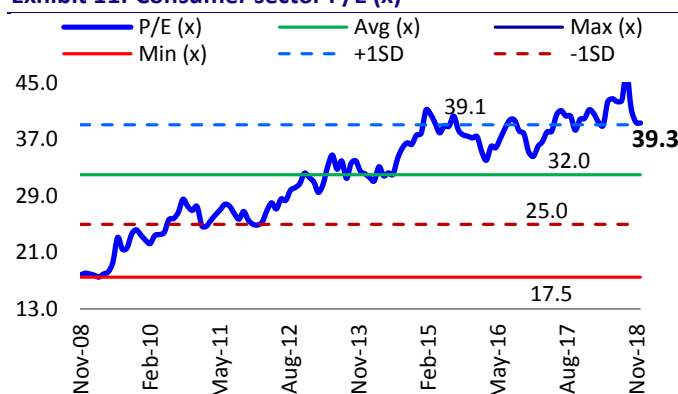
Source: Company, MOSL

Exhibit 10: Page Inds P/E (x)



Source: Company, MOSL

Exhibit 11: Consumer sector P/E (x)



Source: Company, MOSL

Financials and Valuations

Income Statement					(INR Million)	
Y/E March	2015	2016	2017	2018	2019E	2020E
Net Sales	15,430	17,956	21,285	25,514	29,395	35,906
Change (%)	29.9	16.4	18.5	19.9	15.2	22.1
Gross Profit	9,440	11,100	12,662	14,640	16,667	20,466
Margin (%)	61.2	61.8	59.5	57.4	56.7	57.0
Other operating expenditure	6,250	7,348	8,530	9,234	10,174	12,265
EBITDA	3,190	3,752	4,132	5,407	6,493	8,201
Change (%)	25.1	17.6	10.1	30.8	20.1	26.3
Margin (%)	20.7	20.9	19.4	21.2	22.1	22.8
Depreciation	176	241	247	280	320	375
Int. and Fin. Ch.	167	178	180	166	141	54
Other Inc.- Rec.	86	98	243	215	338	413
PBT	2,933	3,431	3,948	5,175	6,370	8,185
Change (%)	25.6	17.0	15.1	31.1	23.1	28.5
Tax	973	1,116	1,285	1,705	2,102	2,701
Tax Rate (%)	33.2	32.5	32.6	33.0	33.0	33.0
Adjusted PAT	1,960	2,315	2,663	3,470	4,268	5,484
Change (%)	27.5	18.1	15.0	30.3	23.0	28.5
Reported PAT	1,960	2,315	2,663	3,470	4,268	5,484
Balance Sheet					(INR Million)	
Y/E March	2015	2016	2017	2018	2019E	2020E
Share Capital	112	112	112	112	112	112
Reserves	3,756	5,187	6,546	8,361	9,428	11,622
Net Worth	3,868	5,299	6,658	8,473	9,540	11,734
Loans	1,573	949	877	685	485	185
Capital Employed	5,440	6,248	7,535	9,158	10,025	11,919
Gross Block	3,059	3,286	2,764	3,048	3,698	4,348
Less: Accum. Depn.	886	1,120	403	669	990	1,365
Net Fixed Assets	2,173	2,166	2,361	2,379	2,709	2,984
Capital WIP	1	4	241	585	585	585
Investments	0	0	521	2,180	2,289	2,976
Curr. Assets, L&A	6,061	7,445	8,418	8,979	9,906	12,073
Inventory	4,435	5,408	6,229	5,679	6,443	7,673
Account Receivables	884	1,024	1,127	1,480	1,530	1,771
Cash and Bank Balance	44	86	206	669	676	1,201
Others	698	926	856	1,152	1,257	1,428
Curr. Liab. and Prov.	2,680	3,289	3,895	4,855	5,354	6,589
Account Payables	821	941	1,112	1,363	1,530	1,869
Other Liabilities	504	640	169	276	282	393
Provisions	1,355	1,708	2,613	3,216	3,542	4,326
Net Curr. Assets	3,381	4,156	4,523	4,123	4,552	5,484
Def. Tax Liability	114	79	112	110	110	110
Appl. of Funds	5,440	6,247	7,535	9,158	10,026	11,919

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E
Basic (INR)						
EPS	175.7	207.6	238.7	311.1	382.7	491.7
BV/Share	346.8	475.1	596.9	759.6	855.3	1,052.0
DPS	72.0	85.0	97.0	131.0	245.3	252.1
Payout (%)	48.9	49.3	51.0	52.6	75.0	60.0
Valuation (x)						
P/E	158.5	134.2	116.6	89.5	72.8	56.6
Cash P/E	145.4	121.5	106.7	82.8	67.7	53.0
EV/Sales	20.2	17.3	14.6	12.1	10.5	8.5
EV/EBITDA	97.9	83.0	75.2	57.0	47.5	37.4
P/BV	80.3	58.6	46.7	36.7	32.6	26.5
Dividend Yield (%)	0.3	0.3	0.3	0.5	0.9	0.9
Return Ratios (%)						
RoE	50.7	43.7	40.0	41.0	44.7	46.7
RoCE	41.6	41.7	40.4	42.9	45.5	50.3
RoIC	40.9	41.0	41.2	55.9	67.8	76.9
Working Capital Ratios						
Asset Turnover (x)	3.1	3.1	3.1	3.1	3.1	3.3
Debtor Days	19	19	18	19	19	17
Creditor Days	17	18	18	18	18	17
Inventory Days	95	100	100	85	75	72
Leverage Ratio						
Debt/Equity (x)	0.4	0.2	0.1	0.1	0.1	0.0

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019E	2020E
(INR Million)						
Profit before Tax	2,933	3,431	3,948	5,175	6,370	8,185
Depreciation	176	241	247	280	320	375
Other Non Cash & Non operating activities	96	149	2	46	-198	-359
Incr in WC	-569	-583	-64	690	-422	-406
Direct Taxes Paid	-966	-1,046	-1,397	-1,645	-2,102	-2,701
CF from Operations	1,670	2,192	2,736	4,546	3,969	5,094
Incr in FA	-534	-263	-613	-565	-650	-650
Free Cash Flow	1,136	1,929	2,122	3,981	3,319	4,444
Pur of Investments	0	0	-500	-1,872	-109	-687
Others	2	2	38	338	338	413
CF from Invest.	-531	-261	-1,076	-2,099	-421	-924
Incr in Debt	-59	0	0	0	-200	-300
Dividend Paid	-899	-1,087	-1,289	-1,624	-3,201	-3,291
Others	-171	-802	-252	-359	-141	-54
CF from Fin. Activity	-1,129	-1,889	-1,541	-1,984	-3,542	-3,644
Incr/Decr of Cash	9	42	119	463	7	526
Add: Opening Balance	35	44	86	206	669	676
Closing Balance	44	86	206	669	676	1,201

E: MOSL Estimates

Corporate profile

Company description

Page Industries commenced operations in the year 1994 with the key objective of bringing the innerwear brand “Jockey” to India. The company has the exclusive right for manufacturing, distribution and marketing of Jockey International products in India, Sri Lanka, Maldives, Bangladesh, Nepal and UAE as well as “Speedo” brand in India. Page Industries is promoted by the Genomal family who have been associated with Jockey International Inc for more than 50 years.

Exhibit 1: Sensex rebased

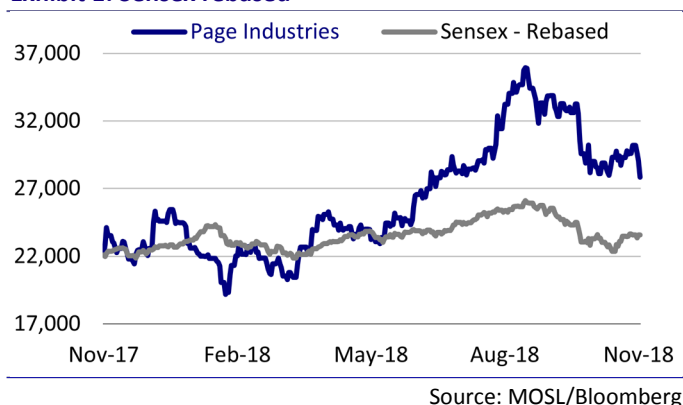


Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	48.3	49.0	49.0
DII	4.5	5.9	5.7
FII	37.3	35.2	36.2
Others	9.9	9.9	9.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Nalanda India Fund Limited	9.3
Cartica Capital Ltd	4.9
Steadview Capital Mauritius Limited	4.8
AXIS MUTUAL FUND TRUSTEE LIMITED A/C AXIS MUTUAL FUND A/C AXIS LONG TERM EQUITY FUND	2.3
ABG Capital	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Pradeep Jaipuria	Chairman
Sunder Genomal	Managing Director
Vedji Ticku	Executive Director & CEO
Shamir Genomal	Executive Director & CSO
V S Ganesh	Executive Director
Chandrasekar K	Chief Financial Officer

Source: Capitaline

Exhibit 5: Directors

Name	Name
Nari Genomal	B C Prabhakar*
Ramesh Genomal	G P Albal*
Timothy Ralph Wheeler	Rukmani Menon*
Shamir Genomal	Sandeep Kumar Maini*
V S Ganesh	Vikram Gamanlal Shah*
Vedji Ticku	Varun Berry

*Independent

Exhibit 6: Auditors

Name	Type
R Vijayakumar	Secretarial Audit
S R Batliboi & Associates LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	382.7	405.2	-5.6
FY20	491.7	502.4	-2.1

Source: Bloomberg

Explanation of Investment Rating	
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

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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