

PAGE INDUSTRIES

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Underperformer
Price (INR)	37,960
12 month price target (INR)	38,487
Market cap (INR bn/USD bn)	423/5.1
Free float/Foreign ownership (%)	51.7/31.5
What's Changed	
Target Price	↓
Rating/Risk Rating	↑

QUICK TAKE

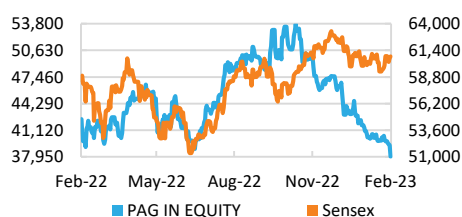
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth			•
Overall			•

FINANCIALS

(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	40,206	49,407	54,965	61,167
EBITDA	7,869	9,427	11,414	13,027
Adjusted profit	5,365	6,347	7,736	8,947
Diluted EPS (INR)	481.0	569.0	693.5	802.1
EPS growth (%)	57.5	18.3	21.9	15.7
RoAE (%)	54.4	50.9	48.4	44.4
P/E (x)	79.0	66.8	54.8	47.4
EV/EBITDA (x)	53.5	44.9	36.8	31.9
Dividend yield (%)	0.6	0.7	0.9	1.1

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Margin hit; normalising pent up growth

Page Industries (Page) reported a muted Q3FY23. Growth came in 2% lower and the margins miss, which stemmed from the usage of high-cost inventory, was a bigger surprise (17% miss). Page also saw a spike in inventory and overall demand outlook remains muted. Management expects growth to improve in a couple of quarters. Segment-wise, athleisure growth was the weakest.

Factoring-in the miss, we adjust FY23E/24E EPS by 8%/1%. Page's fabulous growth phase – propelled by distribution expansion and athleisure – is now behind. However, the recent sharp correction in the stock brings valuation in-sync with expected growth. We upgrade to 'HOLD' with a DCF-based revised TP of INR38,487.

Growth moderates; margins slip

Page saw its revenue growth moderating to 3% YoY on the back of volumes declining 12% YoY to 53mn pieces. Management highlighted that while primary sales were affected due to implementation of ARS in inventory, secondary sales remained unaffected. It also commented that the market is not as buoyant as it expected and the trend seen in Q3 being mirrored in Q4 as well. Gross margins declined 80bp YoY (down 340 bp QoQ) to 52.4% on account of high inflation and usage of higher-priced inventory. Despite cost control in both employee and other expenses, EBITDA margins decreased 530bp YoY (down 320bp QoQ) mainly on account of lower gross margins. Overall, PAT was INR1.2bn vs. INR1.7bn in Q3FY22.

Channel expansion continues

Page added ~37 EBOs in Q3FY23 and now has a total of 1,228 EBOs. The company added ~715 MBOs this quarter *and the* target remains to reach 150,000 over the next two–three years. The company commented that there is much more headroom in terms of reach expansion both in terms of channel sales and EBO's. Currently it has 150 distributors exclusively for the rural market, which used to be half the number a few years back. Page is not looking to take any price increases.

Outlook and valuation: Normalized growth; upgrade to HOLD

Factoring in the miss, we adjust FY23E/24E EPS by 8%/1%. Our revised DCF-based TP comes to INR38,487 (INR39,500 earlier). At our TP, the stock trades at 48x FY25E EPS, versus its five-year one-year forward average of 60x. We believe, at our revenue growth expectation of 11% for FY24E/25E, this is fair. Upgrade to 'HOLD/SU'.

Financials

Year to March	Q3FY23	Q3FY22	% Change	Q2FY23	% Change
Net Revenue	12,233	11,898	2.8	12,550	(2.5)
EBITDA	1,928	2,507	(23.1)	2,379	(19.0)
Adjusted Profit	1,237	1,746	(29.1)	1,621	(23.7)
Diluted EPS (INR)	110.9	156.5	(29.1)	145.4	(23.7)

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Total operating income	40,206	49,407	54,965	61,167
Gross profit	23,116	27,174	30,780	34,254
Employee costs	7,201	9,001	9,721	10,402
Other expenses	8,046	8,746	9,645	10,824
EBITDA	7,869	9,427	11,414	13,027
Depreciation	655	841	1,032	1,099
Less: Interest expense	336	353	370	389
Add: Other income	210	229	303	389
Profit before tax	7,088	8,462	10,314	11,929
Prov for tax	1,722	2,116	2,579	2,982
Less: Other adj	0	0	0	0
Reported profit	5,365	6,347	7,736	8,947
Less: Excp.item (net)	0	0	0	0
Adjusted profit	5,365	6,347	7,736	8,947
Diluted shares o/s	11	11	11	11
Adjusted diluted EPS	481.0	569.0	693.5	802.1
DPS (INR)	240.5	284.5	346.8	401.1
Tax rate (%)	24.3	25.0	25.0	25.0

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
Menswear (% YoY)	40.0	22.0	9.0	9.0
Womenswear (% YoY)	30.0	22.0	12.0	12.0
Athleisure (% YoY)	50.0	25.0	13.0	13.0
EBITDA margin (%)	19.6	19.1	20.8	21.3
Net profit margin (%)	13.3	12.8	14.1	14.6
Revenue growth (% YoY)	41.9	22.9	11.2	11.3
EBITDA growth (% YoY)	49.3	19.8	21.1	14.1
Adj. profit growth (%)	57.5	18.3	21.9	15.7

Assumptions (%)

Year to March	FY22A	FY23E	FY24E	FY25E
GDP (YoY %)	7.0	8.7	6.4	5.8
Repo rate (%)	3.5	4.0	4.0	4.0
USD/INR (average)	73.0	74.5	80.0	78.0
Gross Margin (%)	57.5	55.0	56.0	56.0
Inventory (% of RM)	46.0	45.0	45.0	45.0
Receivable (% of Rev.)	4.1	4.0	4.0	4.0
Capex (INR mn)	979.6	4,500.0	700.0	735.0

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	79.0	66.8	54.8	47.4
Price/BV (x)	38.9	30.1	23.6	18.9
EV/EBITDA (x)	53.5	44.9	36.8	31.9
Dividend yield (%)	0.6	0.7	0.9	1.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Share capital	112	112	112	112
Reserves	10,775	13,948	17,816	22,289
Shareholders funds	10,886	14,060	17,927	22,401
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	3,628	4,002	4,353	4,844
Other liabs & prov	5,347	6,881	7,659	8,527
Total liabilities	21,033	25,699	30,658	36,454
Net block	3,094	6,888	6,875	6,847
Intangible assets	930	864	795	722
Capital WIP	653	653	653	653
Total fixed assets	4,677	8,405	8,323	8,222
Non current inv	0	0	0	0
Cash/cash equivalent	2,835	522	3,990	7,779
Sundry debtors	1,651	1,976	2,199	2,447
Loans & advances	966	1,161	1,250	1,347
Other assets	10,905	13,635	14,896	16,659
Total assets	21,033	25,699	30,658	36,454

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	5,365	6,347	7,736	8,947
Add: Depreciation	655	841	1,032	1,099
Interest (net of tax)	254	265	278	292
Others	(96)	(141)	(211)	(292)
Less: Changes in WC	2,910	1,668	387	686
Operating cash flow	3,269	5,643	8,448	9,359
Less: Capex	(979)	(4,331)	(700)	(735)
Free cash flow	2,290	1,312	7,748	8,624

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	54.4	50.9	48.4	44.4
RoCE (%)	75.2	70.7	66.8	61.1
Inventory days	163	181	195	194
Receivable days	14	13	14	14
Payable days	62	63	63	62
Working cap (% sales)	11.2	11.8	11.5	11.5
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	0	(0.2)	(0.3)
Interest coverage (x)	21.5	24.3	28.0	30.7

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	57.5	18.3	21.9	15.7
RoE (%)	54.4	50.9	48.4	44.4
EBITDA growth (%)	49.3	19.8	21.1	14.1
Payout ratio (%)	50.0	50.0	50.0	50.0

Q3FY23 conference call: Highlights

Q3FY23

- Market is not as buoyant as the management expected and the trend seen in Q3 is being seen in Q4 as well.
- The company has not taken any price hikes in the quarter.
- Revenue per store and revenue growth has been in sync
- Last year the base was very high due to the GST implementation.
- The competition has become more intense but the company is very confident about its product
- The basket spends have also come down eg if earlier 4 people were buying now that is 2 or 3 people
- People are buying formal wear more as they want to revamp their wardrobe.
- Volume is 52.8mn for the quarter and 172.4mn for 9m
- There has been attrition but it is the normal course of business and nothing abnormal.
- Where primary sales declined the secondary sales were not affected
- The company witnessed a 2.8% of lower absorption of labour and factory overheads vs last year
- At a category level mgmt. highlighted it has done much better than competition.
- The premium products have not seen any slackness. Premium products have been well received and have done exceptionally well.
- Also there not much difference in the demand from metro vs t3/4 cities.
- There is a higher impact on MBO due to the implementation of the ARS system.
- Penetration in Men's innerwear is at 22% however it only 7% for kids and women's wear.
- Men category did well and posted a double digit growth

Inventory

- Implemented ARS in Inventory however it has had a short term impact on the inventory
- Cleaned up 7mn of excess inventory in the system
- Management believes ARS will be extremely beneficial for the long run.
- The integration impact of ARS is nearly done however there will be some impact in Q4.
- Inventory which it bought at a lower price will come in Q4 and the benefits will be seen there

- Inventory is at the highest point -carrying 3.5 months of inventory and this will be only reduce in the coming quarters. Last year they had only about half of this inventory.
- On an average the inventory will be about 2-2.5 months of inventory.
- COGS is accounting on a weighted average basis
- Inventory remained high also because demand was not as high as expected.

Outlook

- Not looking at taking any price increase.
- Looking at a normal expansion, management believes there is still a large headroom to grow in the EBO and MBO space.
- Looking at the essential business and postponing certain investments so that they can maintain margins and invest when things start to pick up.

Categories

- Seeing good growth in the kids department on a YoY basis.
- Women's category like bras should grow faster as they are underpenetrated in the same. It has also seen good growth in the year
- Athleisure YTD has shown good growth however Q3 was weaker.
- There is huge potential to grow in all the categories.
- The GM depends on how the demand and growth plays out in the next quarter

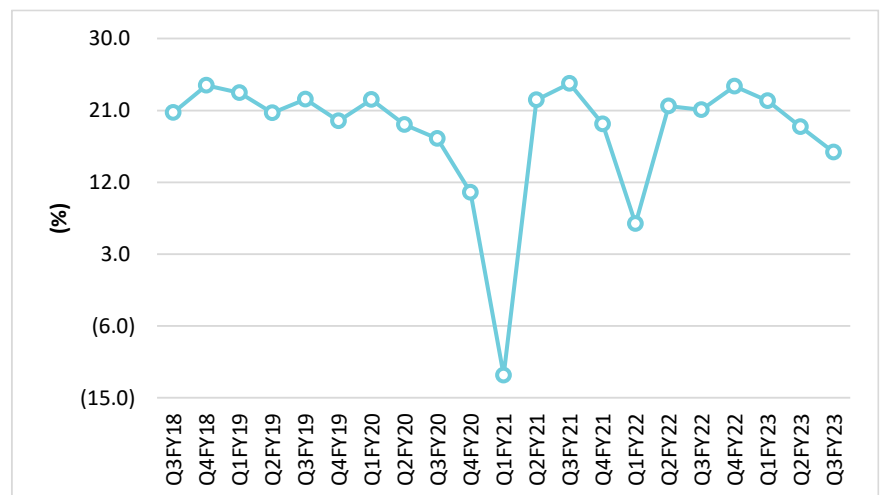
Rural

- Currently it has 150 distributors exclusively for the rural market this is used to be half the number a few years back.
- Out of the 50000 new outlets opened half have been in T3 and T4 cities.

Others

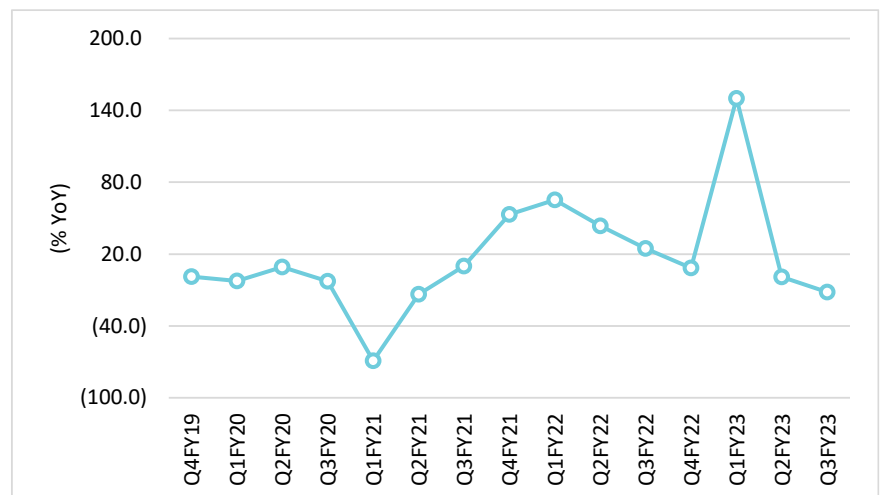
- The company has normalized the advertising spent and a good share of advertising was invested in Q3
- In International territories it is concentrating more on the Middle east, cause of the situation in Sri Lanka and Nepal is not buoyant.
- The commencement of the Odhisha plant will be on single shift basis however company will always have the option to do a double shift as well
- The Odisha plant will manufactures men's innerwear. It is more of replacement capacity that is there in Bangalore as a part of modernization. It is moving some its sewing capacity there.

Exhibit 1: EBITDA margin



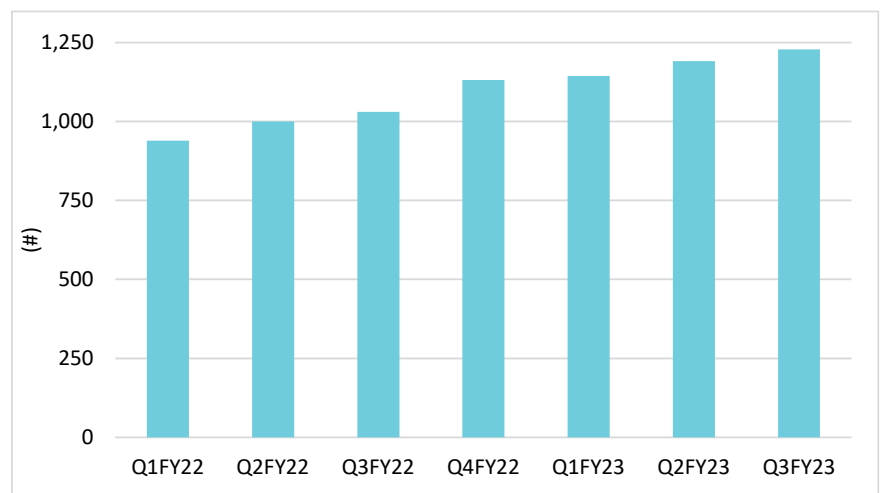
Source: Company, Nuvama Research

Exhibit 2: Volume growth



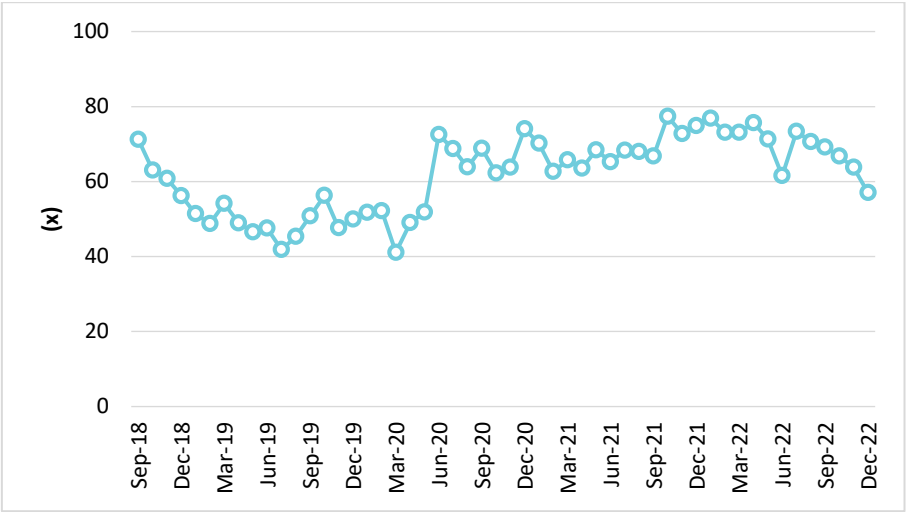
Source: Company, Nuvama Research

Exhibit 3: EBOs: 37 added in Q3FY23



Source: Company, Nuvama Research

Exhibit 4: One-year forward PE



Source: Nuvama Research

Exhibit 5: Quarterly summary (INR mn)

Year to March	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ	FY22A	FY23E	FY24E
Revenue	12,233	11,898	2.8	12,550	(2.5)	40,206	49,407	54,965
Raw material costs	5,825	5,563	4.7	5,551	4.9	17,090	22,233	24,185
Gross profit	6,408	6,335	1.2	6,999	(8.4)	23,116	27,174	30,780
Employee costs	2,148	1,900	13.0	2,301	(6.6)	7,201	9,001	9,721
Other expenses	2,332	1,927	21.0	2,320	0.5	8,046	8,746	9,645
Total operating expenses	4,480	3,828	17.1	4,621	(3.0)	15,247	17,747	19,366
EBITDA	1,928	2,507	(23.1)	2,379	(19.0)	7,869	9,427	11,414
Depreciation	200	167	19.5	188	6.1	655	841	1,032
EBIT	1,728	2,340	(26.2)	2,190	(21.1)	7,214	8,586	10,381
Less: Interest Expense	100	77	28.8	92	8.7	336	353	370
Add: Other income	16	71	(77.0)	27	(38.6)	210	229	303
Profit Before Tax	1,645	2,334	(29.5)	2,125	(22.6)	7,088	8,462	10,314
Less: Provision for Tax	407	589	(30.8)	504	(19.2)	1,722	2,116	2,579
Reported Profit	1,237	1,746	(29.1)	1,621	(23.7)	5,365	6,347	7,736
Adjusted Profit	1,237	1,746	(29.1)	1,621	(23.7)	5,365	6,347	7,736
NOSH	11	11		11		11	11	11
Adjusted EPS	110.9	156.5	(29.1)	145.4	(23.7)	481.0	569.0	693.5
P/E (x)						79.0	66.8	54.8
EV/EBITDA (x)						53.5	44.9	36.8
ROAE (%)						54.4	50.9	48.4
As % of revenues								
COGS	47.6	46.8		44.2		42.5	45.0	44.0
Gross profit	52.4	53.2		55.8		57.5	55.0	56.0
Employee costs	17.6	16.0		18.3		17.9	18.2	17.7
Other expenses	19.1	16.2		18.5		20.0	17.7	17.5
Total operating expenses	36.6	32.2		36.8		37.9	35.9	35.2
EBITDA	15.8	21.1		19.0		19.6	19.1	20.8
Net profit	10.1	14.7		12.9		13.3	12.8	14.1

Source: Company, Nuvama Research

Company Description

Page Industries, set up in 1994, is the exclusive licensee of JOCKEY International, Inc., (USA) for manufacture, distribution and marketing of the JOCKEY brand in India, Sri Lanka, Bangladesh, Nepal, the UAE, Oman and Qatar. In addition, it is also the exclusive licensee of Speedo International Ltd. for the manufacture, marketing and distribution of the Speedo brand in India. Page Industries' promoters (the Genomal family) have been associated with Jockey International, Inc., for more than 50 years as their sole licensee in the Philippines. Because of the immensely successful relationship with Page's promoters, when Jockey International, Inc., decided to tap into the Indian market, they offered the family a chance to take up the India licence and set up operations in the country catering to the markets in India, Bangladesh, Nepal and Sri Lanka.

Investment Theme

Best brand built over last two decades; dominance across categories

Page has built Jockey into an aspirational and best-performing innerwear brand in the country driven by leadership across men's innerwear (#1), women's innerwear (#1) and athleisure (top five). The surge in men's innerwear was driven by branding, positioning (aspirational brand affordably priced) and distribution. Women's innerwear and athleisure have sprung on the pedestal of brand visibility and distribution created by men's innerwear and—importantly—right pricing. Its revenue CAGR of 27% (FY09–19) is the highest among peers and it dominates with ~40% share of organized innerwear.

Scales tipping against market share gains despite athleisure surge

The long streak of market share gains may snap as: i) competition in men's innerwear from VH, the first-ever serious competitor, is telling on Page's growth; ii) competition in women's innerwear from new-age online brands is rising; iii) scope for distribution expansion is limited given nonexistence in the economy segment; iv) kidswear and swimwear are too small to gain traction; and v) the online presence is weak.

Key Risks

Lower-than-expected competitive intensity: One of the key premises for our negative bias on Page Industries is the increased competitive intensity in both menswear and womenswear. That said, in menswear Van Heusen is Page's main competitor and with ABFRL facing elevated debt issues and focus on cost control, there is a possibility it may moderate its expectations on growing the men's innerwear business, which will benefit Page. In womenswear, Page's main competitors are recent start-ups such as Zivame and Clovia, which are still not profitable. If funding for these players dries up in the current uncertain environment, Page stands to gain.

Covid-19 dislocation uplifts athleisure trend

While we are factoring in a one-time jump in athleisure sales, some of which took place in Q4FY20, we do not expect Page's growth trajectory to change greatly driven by this segment. That said, a permanent shift to WFH for majority of the working category would drive above-normal growth for athleisure over the next two—three years.

Additional Data

Management

CEO	V.S. Ganesh
CFO	Chandrasekhar K
MD	Sunder Genomal
Other	
Auditor	S.R. Batliboi

Holdings – Top 10*

% Holding		% Holding	
Nalanda India	7.56	Kotak AMC	2.13
SBI MF	5.41	BlackRock	2.13
Steadview	3.21	Vanguard	1.68
Cartica Capital	2.98	ARISAIG Asia	1.45
Mirae Asset	2.33	Credit Agricole	1.41

*Latest public data

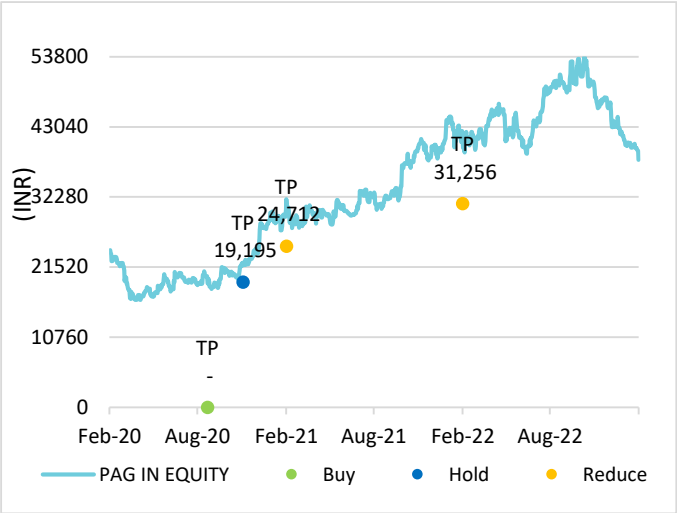
Recent Company Research

Date	Title	Price	Reco
10-Nov-22	Stable showing; growth under a cloud; <i>Result Update</i>	49122	Reduce
11-Aug-22	Strong showing; pricing in a lot more; <i>Result Update</i>	49122	Reduce
26-May-22	Strong showing but pricing-in a lot more; <i>Result Update</i>	41665	Reduce

Recent Sector Research

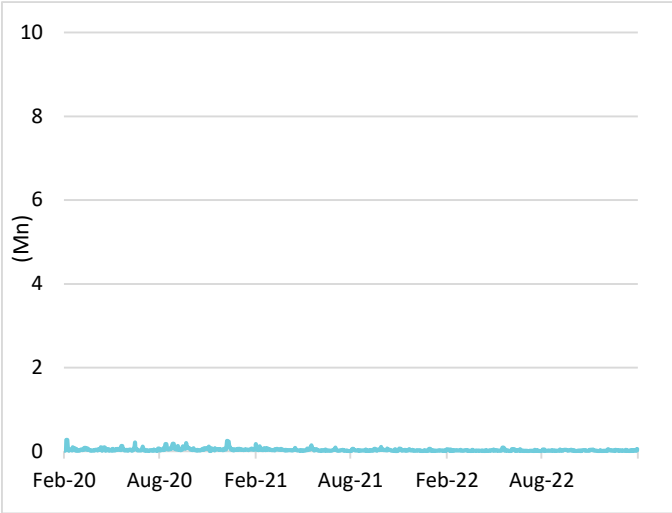
Date	Name of Co./Sector	Title
11-Nov-22	TCNS Clothing	Stable showing; still lagging peers; <i>Result Update</i>
12-Aug-22	TCNS Clothing	Awaiting full blown recovery; <i>Result Update</i>
27-May-22	TCNS Clothing	Muted recovery; stepping up expansion; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Nuvama research

Daily Volume



Source: Bloomberg

Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	62	19	260
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	31	1	260

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	<15% and >-5%
Reduce:	<-5%

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