

PAGE INDUSTRIES

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	37,687
12 month price target (INR)	35,453
52 Week High/Low	50,450/34,953
Market cap (INR bn/USD bn)	420/5.0
Free float (%)	51.7
Avg. daily value traded (INR mn)	1,029.0

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	46.12%	46.12%	46.12%
FII	22.38%	24.66%	25.29%
DII	21.89%	19.62%	19.48%
Pledge	0%	0%	0%

FINANCIALS

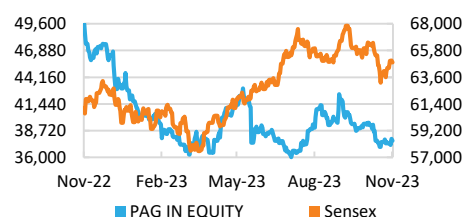
(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	47,886	47,398	56,265	63,040
EBITDA	8,640	9,484	11,339	13,240
Adjusted profit	5,712	6,132	7,551	8,926
Diluted EPS (INR)	512.1	549.8	677.0	800.2
EPS growth (%)	6.5	7.3	23.1	18.2
RoAE (%)	46.4	40.2	40.5	39.2
P/E (x)	73.5	68.5	55.6	47.1
EV/EBITDA (x)	48.9	44.0	36.4	30.8
Dividend yield (%)	0.8	0.7	0.9	1.1

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY24E	FY25E	FY24E	FY25E
Revenue	47,398	56,265	-4.6	-4.1
EBITDA	9,484	11,339	1.5	-4.7
Adjusted profit	6,132	7,551	0.6	-6.2
Diluted EPS (INR)	550	677	0.6	-6.2

PRICE PERFORMANCE



Await demand revival; key metric for us

Page Industries's (Page) Q2FY24 EBITDA, while in line, was driven by stringent cost cutting, with revenue growth – key metric for us, still remaining muted (down 8% YoY, 10% miss). Page highlighted that inventory in the industry, and overall sentiments remain adverse leading to a fourth consecutive quarter of volume decline. While Page is hoping for festive to revive sales, not certain how salient at least the innerwear category is to a spike during festive (maybe apparel could).

We adjust FY25 EPS lower by 6% on lower sales growth, as also lower valuation by 5% to 48x PE (50x earlier). Rolling over to H1FY26 yields a revised TP of INR35,453 (INR 38,059 earlier). Retain 'REDUCE'. We reckon an improvement in growth would trigger a re-rating.

Demand weakness sustains; margins surprise on cost cutting

Page reported a revenue miss with a contraction of 8.4% YoY and volumes down 9% YoY. Realisation stayed flat YoY. The company also highlighted the industry has excessive inventory at present – a lot of offers and discounts in play due to inventory in the system at present across categories due to muted demand sentiment. Page is not certain when the demand situation will normalise. Secondary sales performance was marginally better than primary. Category-wise Page highlighted that women's innerwear has done marginally better than other categories.

On reported CoGS, gross margins were down 130bp YoY and improved 240bp QoQ. Key highlight was cost control, where Page's opex fell both as a percentage of sales and in absolute terms YoY and QoQ despite the sales contraction. There was normal attrition in the workforce and the company has put in a hiring freeze, which helped in controlling costs on the employee front. As a result, EBITDA margin came in at 20.8% (Q2FY23: 19%; Q1FY24: 20%). EBITDA came in 3% above estimate. Overall, EBITDA/PAT was down 2%/7% YoY. Page added ~40 EBOs and saw some moderation in MBO network. It is now present in ~118,218 MBOs (FY23: ~120,000; FY22: ~110,500). E-commerce channel grew 31% YoY. Page highlighted that the contribution from this channel can go up to late teens over the longer horizon.

Initiatives there, but potentially not trajectory altering

Page saw a significant benefit during Covid, especially in the athleisure segment. Hereon growth will be driven by initiatives to increase channel presence (EBO and online), SKUs (womenswear) and categories (athleisure). We believe Page's valuation has been a function of its growth outlook. Given the sustained muted performance, we adjust our target PE multiple lower to 48x. Our multiple of 48x PE factors the 10% revenue CAGR (FY23-26) versus 17% for FY15-19 (average PE: 55x).

Financials

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Net Revenue	11,251	12,282	(8.4)	12,324	(8.7)
EBITDA	2,335	2,379	(1.8)	2,419	(3.4)
Adjusted Profit	1,503	1,621	(7.3)	1,584	(5.1)
Diluted EPS (INR)	134.7	145.4	(7.3)	142.0	(5.1)

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	47,886	47,398	56,265	63,040
Gross profit	26,207	26,543	31,508	35,302
Employee costs	8,812	8,107	9,404	10,063
Other expenses	8,754	8,951	10,765	12,000
EBITDA	8,640	9,484	11,339	13,240
Depreciation	781	974	1,089	1,173
Less: Interest expense	426	545	422	443
Add: Other income	147	172	192	221
Profit before tax	7,581	8,138	10,021	11,845
Prov for tax	1,869	2,006	2,470	2,920
Less: Other adj	0	0	0	0
Reported profit	5,712	6,132	7,551	8,926
Less: Excp.item (net)	0	0	0	0
Adjusted profit	5,712	6,132	7,551	8,926
Diluted shares o/s	11	11	11	11
Adjusted diluted EPS	512.1	549.8	677.0	800.2
DPS (INR)	300.0	274.9	338.5	400.1
Tax rate (%)	24.6	24.6	24.6	24.6

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
Menswear (% YoY)	23.0	0	18.0	10.0
Womenswear (% YoY)	23.0	5.0	18.0	12.0
Athleisure (% YoY)	23.0	(5.0)	20.0	14.0
EBITDA margin (%)	18.0	20.0	20.2	21.0
Net profit margin (%)	11.9	12.9	13.4	14.2
Revenue growth (% YoY)	23.2	(1.0)	18.7	12.0
EBITDA growth (% YoY)	9.8	9.8	19.6	16.8
Adj. profit growth (%)	6.5	7.3	23.1	18.2

Assumptions (%)

Year to March	FY23A	FY24E	FY25E	FY26E
GDP (YoY %)	6.0	6.4	5.8	5.8
Repo rate (%)	4.0	4.0	4.0	4.0
USD/INR (average)	72.0	80.0	78.0	78.0
Gross Margin (%)	54.7	56.0	56.0	56.0
Inventory (% of RM)	60.5	50.0	44.0	44.0
Receivable (% of Rev.)	3.1	4.0	4.0	4.0
Capex (INR mn)	1,656.5	2,000.0	500.0	525.0

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	73.5	68.5	55.6	47.1
Price/BV (x)	30.6	25.0	20.4	16.8
EV/EBITDA (x)	48.9	44.0	36.4	30.8
Dividend yield (%)	0.8	0.7	0.9	1.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Share capital	112	112	112	112
Reserves	13,599	16,665	20,440	24,903
Shareholders funds	13,710	16,776	20,552	25,015
Minority interest	0	0	0	0
Borrowings	2,482	1,422	0	0
Trade payables	2,876	3,337	4,456	4,993
Other liabs & prov	6,163	6,584	7,826	8,774
Total liabilities	26,877	30,551	35,952	42,609
Net block	3,375	4,851	4,757	4,653
Intangible assets	1,477	2,005	2,537	3,071
Capital WIP	1,505	1,505	1,505	1,505
Total fixed assets	6,356	8,360	8,799	9,229
Non current inv	0	0	0	0
Cash/cash equivalent	81	4,172	7,718	11,671
Sundry debtors	1,461	1,896	2,251	2,522
Loans & advances	2,917	2,324	2,635	2,886
Other assets	16,062	13,798	14,550	16,301
Total assets	26,877	30,551	35,952	42,609

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	5,712	6,132	7,551	8,926
Add: Depreciation	781	974	1,089	1,173
Interest (net of tax)	321	410	318	334
Others	(48)	(38)	(88)	(112)
Less: Changes in WC	6,782	(3,477)	(988)	754
Operating cash flow	(16)	10,956	9,857	9,566
Less: Capex	1,638	2,000	500	525
Free cash flow	1,622	12,956	10,357	10,091

Key Ratios

Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	46.4	40.2	40.5	39.2
RoCE (%)	59.1	50.5	53.9	53.9
Inventory days	216	252	193	187
Receivable days	12	13	13	14
Payable days	55	54	57	62
Working cap (% sales)	23.7	17.0	12.6	12.5
Gross debt/equity (x)	0.2	0.1	0	0
Net debt/equity (x)	0.2	(0.2)	(0.4)	(0.5)
Interest coverage (x)	18.5	15.6	24.3	27.3

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	6.5	7.3	23.1	18.2
RoE (%)	46.4	40.2	40.5	39.2
EBITDA growth (%)	9.8	9.8	19.6	16.8
Payout ratio (%)	58.6	50.0	50.0	50.0

Q2FY24 Conference call highlights

Q2FY24:

- There was no impact of ARS implementation in this quarter. Secondary was marginally better than primary.
- Demand in innerwear and athleisure remained muted in Q2FY24. Industry has witnessed accumulation of excessive inventory. Problem of inventory is across categories and not just in athleisure.
- Women's innerwear has done marginally better than other categories.
- Page focused on maintaining sustainable sales practises.
- The company does not have significant low-cost inventory at this point in time.
- Other expenses have a component of sub-contracting charges. In line with lower production, there has been a moderation in sub-contracting charges. Furthermore, the company has reduced marketing changes.
- The reduction in employee costs is not related to variable spends. Reduction in employee costs are related to i) natural attrition in manufacturing work force, ii) A hiring freeze.

Brand:

- To keep market share, Page has been driving marketing spends. Secondary sales have done well and there was a marked improvement in distributor health.

Distribution:

- Distribution expanded during Covid as the customer went to his hometown. As the situation has normalised, productivity has moderated, which does not make serving these discontinued outlets profitable.
- As an example, in a town with a population of 50,000 or less the company believes three-four outlets can work, not eight-nine. That is the reason for some reduction in outlet count.
- ARS implementation is nearly done but the benefits will take time to show up.
- Page still believes distribution in general trade can expand further.
- EBOs have also recorded a contraction in revenues. Contraction is lower as inventory health is much better than other channels due to ARS being implemented earlier.

Other:

- Accounting change: The company has reclassified the revenue it recognises on transfer of products to third-party manufacturing units/outsourced partners. Earlier, this was captured as income from other operations. Hence, that has been regrouped and netted off from cost of raw materials.
- Of the INR13.9bn of inventory, finished goods inventory is INR6.9bn and raw material: INR2.7bn.

Outlook:

- Focus on optimising supply chain and optimising costs.
- Inventory is normalising in the channel. This should aid in primarily sales. Page expects tertiary sales to pick up during festive, which shall aid channel clearing and drive growth.
- Page is not clear on when the inventory in the industry will normalise. Even as of now, the situation in the industry continues to remain intense.
- The company does not expect to take any price hikes in FY24.
- In H2FY24, marketing spends should come back to 4-5%.
- Longer-term online share could reach high to late teens.
- There has been a substantial improvement in the number of days of inventory at the distributor level.

Exhibit 1: Performance summary

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<u>Key Financials</u>										
Sales	5,015	10,840	11,898	11,111	13,413	12,282	12,233	9,691	12,324	11,251
EBIDTA	342	2,334	2,507	2,671	2,978	2,379	1,928	1,343	2,419	2,335
EBIDTA Margin	7%	22%	21%	24%	22%	19%	16%	14%	20%	21%
Adjusted PAT	109	1,605	1,746	1,905	2,070	1,621	1,237	784	1,584	1,503
PAT Margin	2%	15%	15%	17%	15%	13%	10%	8%	13%	13%
<u>% YoY Growth</u>										
Sales	76	46	28	26	167	13	3	-13	-8	-8
EBIDTA	-199	41	11	57	771	2	-23	-50	-19	-2
PAT	-128	45	14	65	1,791	1	-29	-59	-24	-7
<u>% QoQ Growth</u>										
Sales	-43	116	10	-7	21	-8	0	-21	27	-9
EBIDTA	-80	582	7	7	11	-20	-19	-30	80	-3
PAT	-91	1,366	9	9	9	-22	-24	-37	102	-5
<u>Distribution</u>										
EBO	939	1,000	1,030	1,131	1,144	1,191	1,228	1,289	1,332	1,372
MBO	80,250	94,000	1,05,200	1,10,548	1,13,715	1,18,123	1,18,838	1,20,060	1,20,461	1,18,128
<u>Volumes (% YoY)</u>										
Volume (mn pcs)	25	57	60	50	63	57	53	43	56	52
ASP (INR)	199	192	199	223	213	216	232	228	221	217
Volumes (% YoY)	65	44	25	9	150	0	-12	-15	-12	-9

Source: Company, Nuvama Research

Outlook and valuation

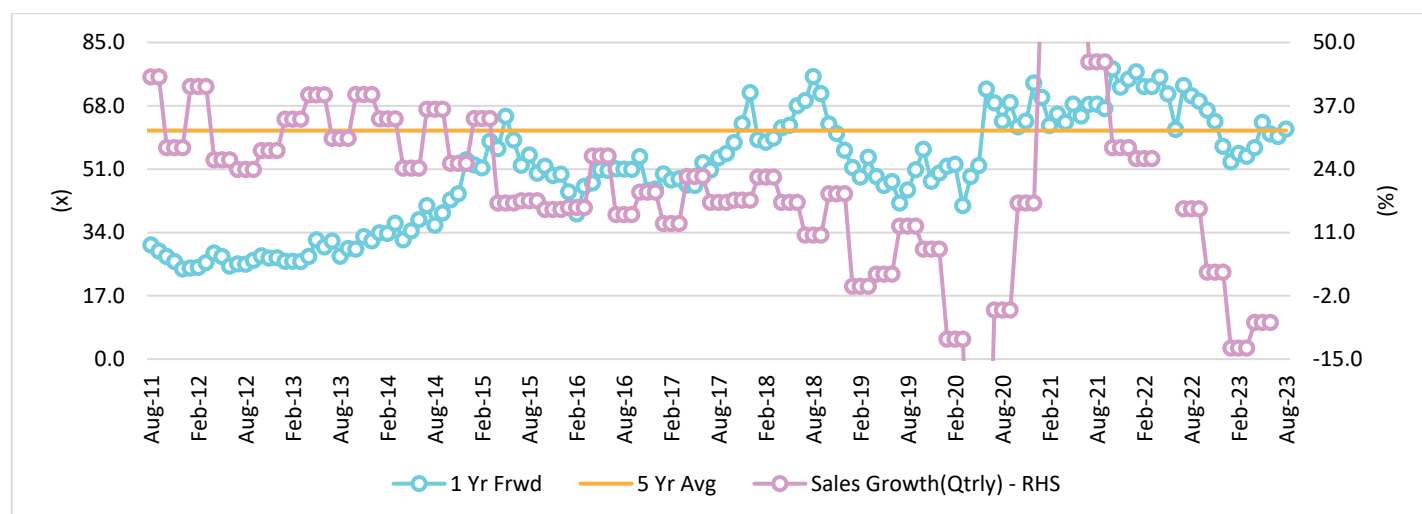
Page's valuation: Function of its growth

Page's premium valuations to other apparel players and the consumer discretionary pack, in general, is a function of its strong growth over the past decade and cash-rich high-returns business. With its business remaining cash-rich and high-RoCE (not seen any working capital deterioration or need for backward integration), Page's valuation has been a function of its sales growth.

The stock re-rated significantly over FY09–17 as Page's sales growth kept beating expectations (average quarterly growth: 31%). The stock suffered a de-rating post-FY18 as growth moderated. It traded at a peak multiple of 74x in Aug-18, post the last quarter of its famed 20% consistent growth every quarter.

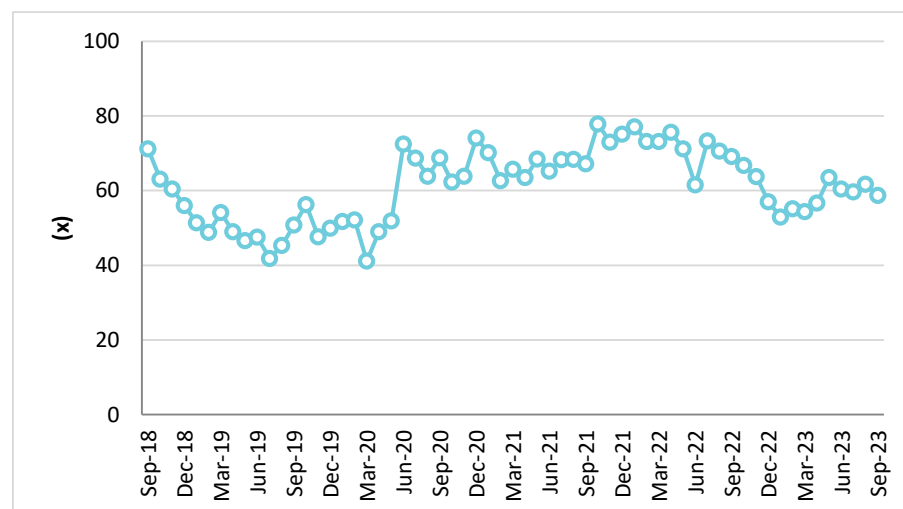
We believe Page's valuation has been a function of its growth outlook (refer to exhibit 11); hence, we are revising the target valuation to PE from DCF. Our target 50x PE factors in an 11% revenue CAGR (FY23–26E) that we build in versus 17% over FY15–19 (average PE: 55x). This yields a revised TP of INR38,059 (INR37,264 earlier). Maintain **'REDUCE'**.

Exhibit 2: Page's valuation and growth history



Source: Bloomberg, Nuvama research

Exhibit 3: One-year forward PE



Source: Bloomberg, Nuvama Research

Exhibit 4: Valuation summary

H1FY26 EPS (INR)	739
Target PE (x)	48
Target Price (INR)	35,453
CMP (INR)	37,659
Upside (%)	-6%

Source: Company, Nuvama Research

Exhibit 5: Quarterly summary

Year to March	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ	FY23	FY24E	FY25E
Revenue	11,251	12,282	(8.4)	12,324	(8.7)	47,886	47,398	56,265
Raw material costs	4,989	5,283	(5.6)	5,762	(13.4)	21,680	20,855	24,756
Gross profit	6,262	6,999	(10.5)	6,562	(4.6)	26,207	26,543	31,508
Employee costs	2,038	2,301	(11.4)	2,087	(2.4)	8,812	8,107	9,404
Other expenses	1,889	2,320	(18.6)	2,056	(8.1)	8,754	8,951	10,765
Total operating expenses	3,927	4,621	(15.0)	4,143	(5.2)	17,566	17,059	20,169
EBITDA	2,335	2,379	(1.8)	2,419	(3.4)	8,640	9,484	11,339
Depreciation	246	188	30.9	210	17.3	781	974	1,089
EBIT	2,089	2,190	(4.6)	2,209	(5.4)	7,859	8,510	10,251
Less: Interest Expense	112	92	22.0	127	(12.2)	426	545	422
Add: Other income	17	27	(37.6)	19	(11.9)	147	172	192
Profit Before Tax	1,994	2,125	(6.2)	2,100	(5.1)	7,581	8,138	10,021
Less: Provision for Tax	491	504	(2.6)	517	(4.9)	1,869	2,006	2,470
Reported Profit	1,503	1,621	(7.3)	1,584	(5.1)	5,712	6,132	7,551
Adjusted Profit	1,503	1,621	(7.3)	1,584	(5.1)	5,712	6,132	7,551
NOSH	11	11		11		11	11	11
Adjusted EPS	135	145	(7.3)	142	(5.1)	512	550	677
P/E (x)						78	73	59
EV/EBITDA (x)						52	47	39
ROAE (%)						46	40	40
As % of revenues								
COGS	44.3	43.0		46.8		45.3	44.0	44.0
Gross profit	55.7	57.0		53.2		54.7	56.0	56.0
Employee costs	18.1	18.7		16.9		18.4	17.1	16.7
Other expenses	16.8	18.9		16.7		18.3	18.9	19.1
Total operating expenses	34.9	37.6		33.6		36.7	36.0	35.8
EBITDA	20.8	19.4		19.6		18.0	20.0	20.2
Net profit	13.4	13.2		12.8		11.9	12.9	13.4

Source: Company, Nuvama Research

Company Description

Page Industries, set up in 1994, is the exclusive licensee of JOCKEY International, Inc., (US) 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. Due to 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	Deepanjan Bandyopadhyay
MD	Sunder Genomal
Other	
Auditor	S.R. Batliboi

Holdings – Top 10*

% Holding		% Holding	
SBI MF	9.61	UTI Asset Manag	1.33
Nalanda India F	7.56	NPS Trust	1.25
Blackrock	2.07	Mirae Asset Glo	1.00
Vanguard	2.06	Nippon Life AMC	0.85
HDFC Life Insur	1.67	Kotak AMC	0.73

*Latest public data

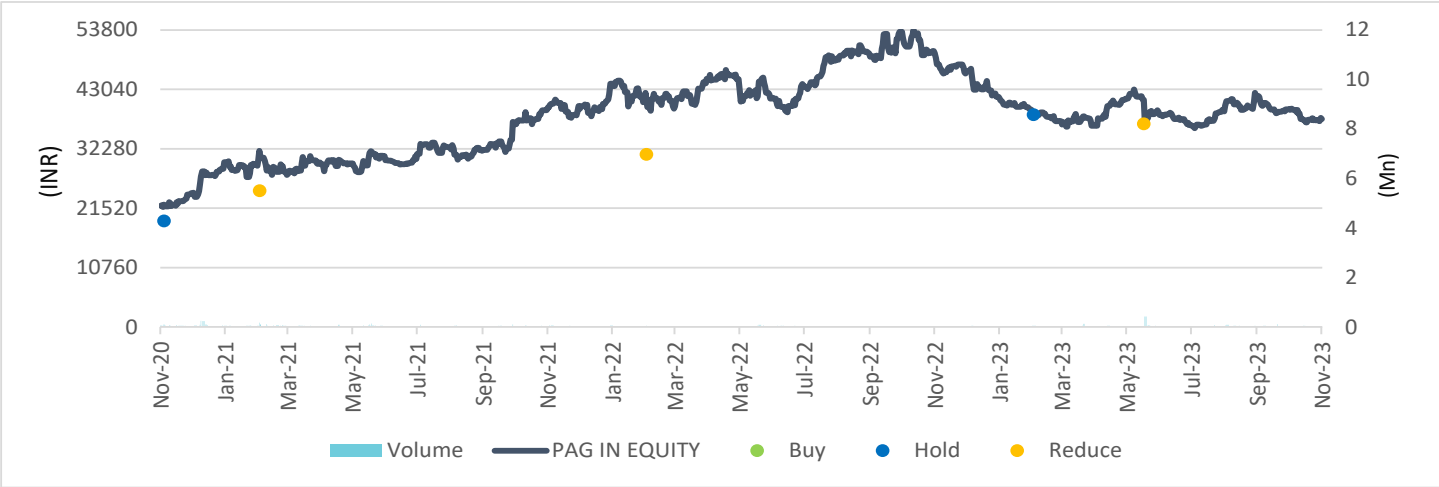
Recent Company Research

Date	Title	Price	Reco
07-Sep-23	Tailwinds behind; initiatives at play; <i>Company Update</i>	42,439	Reduce
10-Aug-23	Cost-driven beat; underlying still weak; <i>Result Update</i>	40,067	Reduce
25-May-23	Quite a shocker; ARS hangover to linger; <i>Result Update</i>	41,139	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
16-Aug-23	TCNS Clothing	Weak performance; <i>Result Update</i>
29-May-23	TCNS Clothing	All round disappointment ; <i>Result Update</i>
14-Feb-23	TCNS Clothing	Underdressed: Muted showing all over; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	207
Hold	<15% and >-5%	60
Reduce	<-5%	18

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