Page Industries

08 August 2024

Early signs of recovery but normalisation still couple of quarters away

RESULT UPDATE

Sector: Apparel	**Rating: HOLD**
CMP: Rs 40,656	**Target Price: Rs 41,102**

Stock Info

Sensex/Nifty	78,886/ 24,117
Bloomberg	PAG IN
Equity shares (mn)	11.2
52-wk High/Low	Rs 42,902/33,100
Face value	Rs 10
M-Cap	Rs 453bn/US$ 5.4bn
3-m Avg volume	US$ 12mn

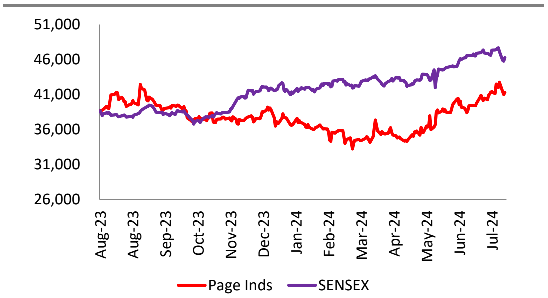
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	45,817	51,825	60,787
PAT	5,707	6,609	8,335
EPS (Rs)	511.6	592.5	747.3
PE (x)	79.5	68.6	54.4
EV/EBITDA (x)	51.6	44.4	35.9
P/BV (x)	28.4	26.4	24.3
EV/Sales	9.8	8.7	7.4
RoE (%)	38.5	39.9	46.5
RoCE (%)	49.8	55.9	64.6
NWC (days)	88	81	81
Net gearing (x)	-	-	-

Shareholding Pattern (%)

	Jun24	Mar24	Dec23
Promoter	45.0	45.1	45.1
–Pledged	-	-	-
FII	20.6	20.9	21.8
DII	27.4	25.9	23.9
Others	7.1	8.2	9.2

Stock Performance (1-year)



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Page Industries' (PAG) reported lower than expected revenue growth while operating performance was marginally above our expectations. Company reported revenue/ EBITDA/ PAT growth of 3.9%/ 2%/ 4.3% YoY respectively. Volume grew 2.6% to 57.4 mn pieces. Growth in consumption and demand remained subdued in Q1 however early signs of recovery are now visible. Gross margin expanded 90 bps to 54.1%. Stable raw material costs have contributed to healthy margins. Operating margin contracted 36 bps to 19% impacted due to higher investments on marketing and technology. PAT grew 4.3% to Rs 1,652 mn. Other key highlights were 32% growth in the online channel, reduction in the MBO count led by network consolidation and rationalization, and healthier inventory availability at distribution network giving impetus to secondary sales and higher return on investment. Company announced interim dividend of Rs 300 per share for FY25.

Despite recent demand softness which is making the company run a tight ship on costs, it still intends to increase essential spends on marketing, distribution especially on D2C, EBOs and product innovation, given still low penetration rates across segments and markets. Soft RM prices should also drive some volume and margin recovery as there is no imminent need of a price hike. Inventory health and ROIs of channel partners should improve further in FY25 after a 6 days improvement since the implementation of auto replenishment system helping control distributor attrition. We continue to believe in the long-term growth potential of the business and do not think the structural moats have been impacted. Given the near-term growth outlook and improvement in inventory levels at distributor level through ARS, we have build in revenue/ EBITDA/ PAT CAGR of 15%/ 20%/ 21% over FY24-FY26E. We maintain our HOLD rating with a revised TP of Rs 41,102 (Rs 36,800 earlier) based on 55x FY26E earnings, a 10% discount to PAG's long-term valuation multiple.

Sales growth at 3.9% and volume at 2.6%: 1Q sales grew 3.9% YoY, led by volume growth of 2.6% YoY to 57.4mn pieces. Growth in consumption and demand remained subdued in Q1, though there are early signs of recovery. Brand campaign during cricket T20 world cup significantly contributed to enhance brand recall and consumer awareness. There was encouraging consumer response to new outerwear product launches. There are early positive signs, such as the uptick in rural consumption which is expected to provide an impetus to overall consumption in coming quarters. Company is now seeing better footfalls and revival in demand. Secondary and tertiary demand has been ahead of primary, with better numbers at point of sale compared to which was realized in primary, due to inventory holding in the channel. Implementation of Auto Replenishment System (ARS) is helping improve distributor inventory levels and freshness. Inventory levels have come down by c. 6 days since the implementation of auto replenishment as a process for primary billing to distributors. At the distributor level, more than 10 days of inventory has been reduced, particularly for athleisure products. Company has launched products at tight price points, especially in the athleisure category, to address value-seeking consumers. Company expects to see healthy growth from 2HFY25 led by healthy macros. We believe the company can return to double-digit growth in FY25 backed by better inventory health and a richer product portfolio. We estimate 15% CAGR in revenue over FY24-26E. Gradual change in sales mix favoring premium products

Investors are advised to refer disclosures made at the end of the research report.

across segments and sustained growth in women's wear and ecommerce sales remain key growth drivers.

Stable input costs support GM; OPM impacted by higher investments on marketing and technology: Gross margin expanded 90 bps to 54.1%. Stable raw material costs have contributed to healthy margins. Input costs especially for fabric and yarn are not expected to create pressure. Cotton prices too are stable on the lower side. Operating margin contracted 36 bps to 19% impacted due to higher investments on marketing and technology. Ad spends should sustain at normalized levels of 4%-5% of sales going forward. Management expects operating margin to remain in the range of 18-21% on an annual basis. PAT grew 4.3% to Rs 1,652 mn. After rising to 19% in FY24, we expect margins to further move up gradually to 19.5% in FY25E and 20.7% in FY26E.

Strong market coverage across channels: PAG has an MBO coverage of 1,04,696 while EBOs stand at 1,395 of which 39 are exclusive women stores and 61 are exclusive juniors stores. Company operates 18 factory outlets. The EBO presence is spread across 485 cities while MBOs are present in 2,713 cities. Given that EBOs are present in less number of cities vs MBOs, the opportunity remains large, which should ensure a run-rate of 150-200 EBOs per annum. Over last three quarters, Tier III & IV towns have grown ahead of Tier 1 & II. Online saw a robust growth of 32% in Q1. The company would focus on increasing its product range in the online space, existing MBOs and LFS doors.

Outlook and valuation: The innerwear market continues to have robust long-term potential, with penetration of ~18% in men's wear, 5-6% in women's wear, 6-8% in athleisure and 2% in kidswear. Despite near-term headwinds which has reduced the pace of capacity expansion, PAG remains positive on the long-term outlook and continues to work on expanding capacity and expanding its product portfolio, while ramping up its distribution reach. After a really weak FY24, we estimate 15%/21% revenue/EPS CAGR over FY24-26E, and maintain our HOLD rating on the stock, with a TP of Rs 41,102 based on 55x FY26E earnings. We suggest waiting for some tangible signs of an improvement in demand conditions before entering the stock. Unexpected issues arising from attrition in management and distribution, increasing competition from private labels and/or consumer downtrading could pose downside risks to our estimates.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Net Revenues	**12,775**	**12,291**	**9,925**	**3.9**	**28.7**
RM Costs	4,515	4,069	2,970	**11.0**	**52.0**
(% of sales)	35.3	33.1	29.9		
Purchase of traded goods	1,342	1,677	1,393	**(20.0)**	**(3.7)**
(% of sales)	10.5	13.6	14.0		
Employee cost	2,013	2,087	1,935	**(3.6)**	**4.0**
(% of sales)	15.8	17.0	19.5		
Others	2,472	2,072	1,983	**19.3**	**24.6**
(% of sales)	19.3	16.9	20.0		
EBITDA	**2,433**	**2,385**	**1,643**	**2.0**	**48.1**
EBITDA margin (%)	**19.0**	**19.4**	**16.6**		
Other income	129	52	137	**146.6**	**(6.1)**
PBIDT	**2,562**	**2,438**	**1,781**	**5.1**	**43.9**
Depreciation	221	210	226	**5.2**	**(2.1)**
Interest	117	127	105	**(8.2)**	**11.7**
PBT	**2,225**	**2,100**	**1,450**	**5.9**	**53.4**
Tax	572	517	368	**10.8**	
ETR (%)	25.7	24.6	25.4		
Adjusted PAT	**1,652**	**1,584**	**1,082**	**4.3**	**52.7**
PATAMI margin	12.9	12.9	10.9		
Extraordinary income/ (exp.)	0	0	0		
Reported PAT	**1,652**	**1,584**	**1,082**	**4.3**	**52.7**
No. of shares (mn)	11.2	11.2	11.2		
Adj EPS (Rs)	**148.1**	**142.0**	**97.0**		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in Estimates (Rs mn)

	New Estimates		Old Estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	51,825	60,787	51,694	60,463	0.3%	0.5%
EBITDA	10,128	12,544	10,054	12,387	0.7%	1.3%
EBITDA Margin	19.5%	20.6%	19.4%	20.5%		
Adj. PAT	6,609	8,335	6,553	8,209	0.8%	1.5%

Source: Company, Systematix Institutional Research

Conference call takeaways

Demand environment – Operating environment in Q1 remained stable and broadly consistent with the preceding quarters, with no significant improvement in consumption. However there are early positive signs, such the uptick in rural consumption which is expected to provide an impetus to overall consumption in coming quarters. Company is now seeing better footfalls and revival in demand. Secondary and tertiary demand has been ahead of primary, with better numbers at point of sale compared to what was realized in primary, due to inventory holding in the channel. The company has launched products at tight price points, especially in the athleisure category, to address value-seeking consumers.

Pricing action - Discounting in the industry has come down substantially in the 2HFY24 and was not seen in 1QFY25. Last price hike was taken by the company in July 2022. There are no plans to drop prices in the foreseeable future, as the company does not anticipate adverse reactions to the product at current pricing.

Gross margins and input cost – Input costs especially for fabric and yarn are not expected to create pressure. Cotton prices too are stable on the lower side. Stable raw material costs have contributed to healthy margins. Favorable input cost reductions have enabled the brand to launch products at tight price points without compromising on quality or consumer experience.

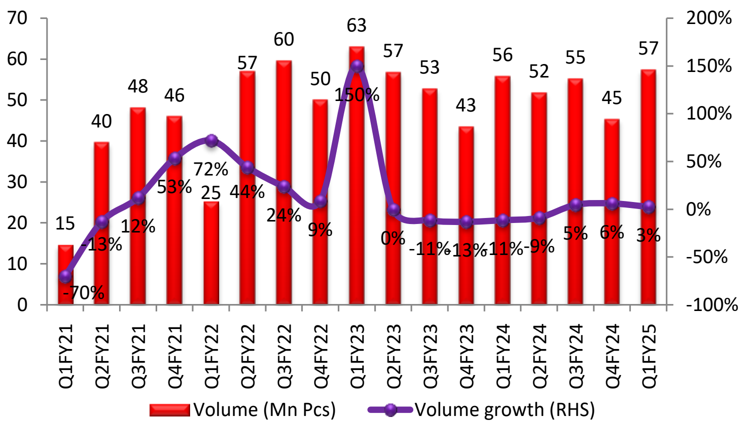
Operating margins - Company expects operating margin to remain in the range of 18-21% on an annual basis. Margins in B2B ecommerce are similar to the offline business. However, margins for B2C segments are marginally lower due to higher marketing investments for customer acquisitions and higher delivery costs in the marketplace.

Inventory - Year on year inventory days stood at 72 compared to 93 days at the end of FY24, indicating focus on healthy inventory in the distribution network. The company has maintained optimum level of inventory. Inventory levels have come down by c. 6 days since the implementation of auto replenishment as a process for primary billing to distributors. At the distributor level, more than 10 days of inventory has been reduced, particularly for athleisure products. The number of inventory days has come down but the absolute inventory is expected to remain similar. Inventory holding in the value chain has contributed to better secondary and tertiary numbers compared to primary. Company has healthy inventory levels for certain SKUs imported from Bangladesh. Inventory health improvement is expected to drive healthy sales growth.

Competition - Company believes the gap with its competitors as reduced. Jockey has not resorted to price hikes since last 2 years. The company benchmarks itself against its competitors in terms of their product offering and price points. Women’s innerwear market is considered more competitive due to larger number of credible players in the branded space compared to men’s innerwear market. Company currently hold’s 17% market share.

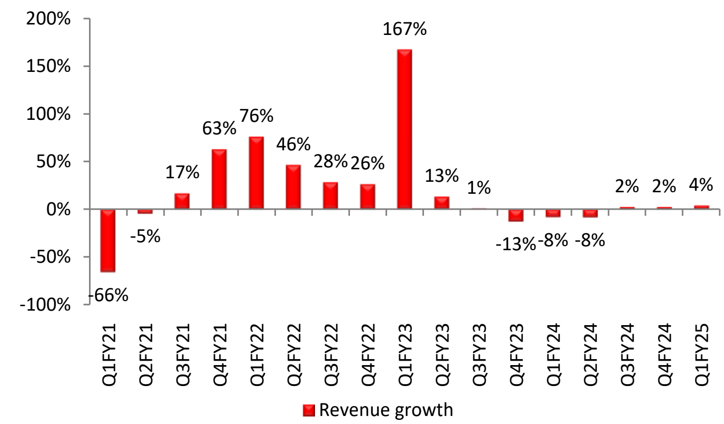
Supply chain - Company has made sure that no critical product has only one vendor, instead having multiple vendor sources, both geographically, as a risk mitigation plan. Company does not foresee any risk related to supply chain disruptions due to Bangladesh issue. The Odisha plant is expected to be completed by Q4FY25E.

Exhibit 3: Volumes grew 2.6% YoY



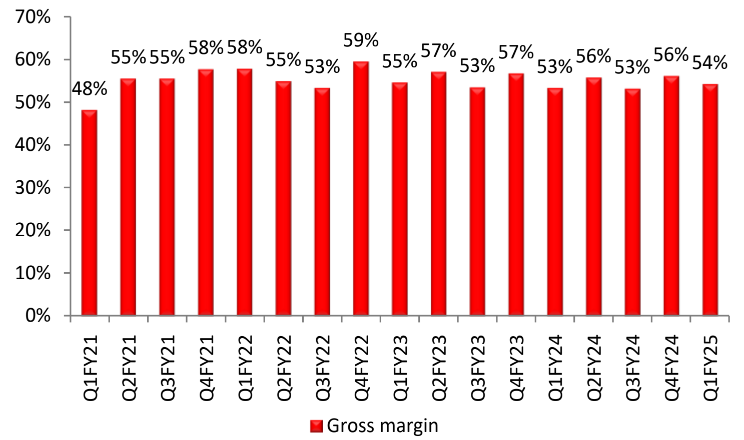
Source: Company, Systematix Institutional Research

Exhibit 4: Revenue grew 3.9% YoY on subdued demand



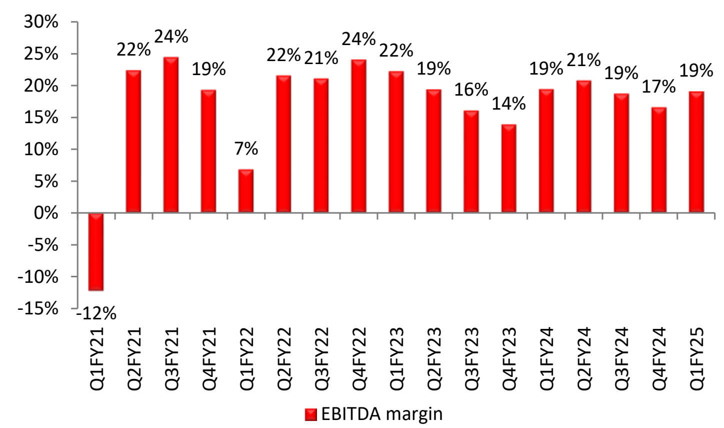
Source: Company, Systematix Institutional Research

Exhibit 5: GMs improved 90 bps YoY



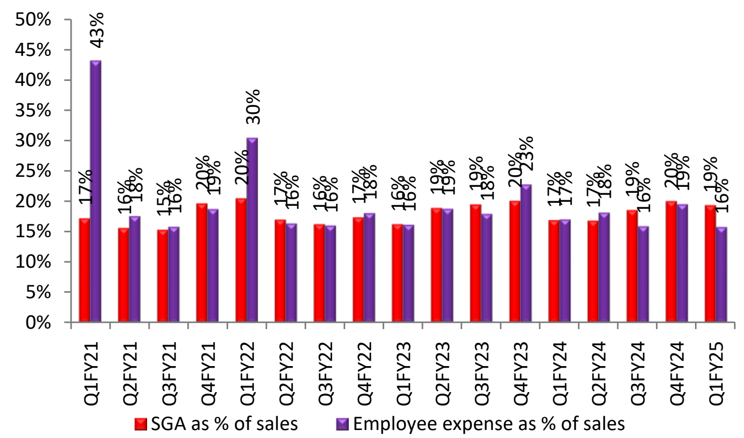
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin contracted 36bps



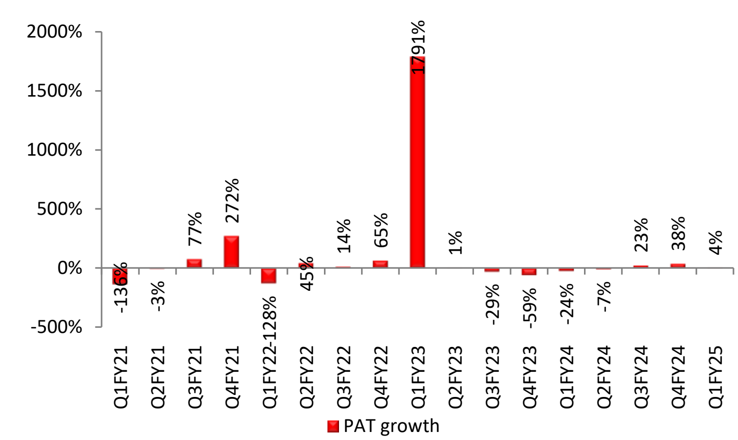
Source: Company, Systematix Institutional Research

Exhibit 7: SGA and employee expenses declined



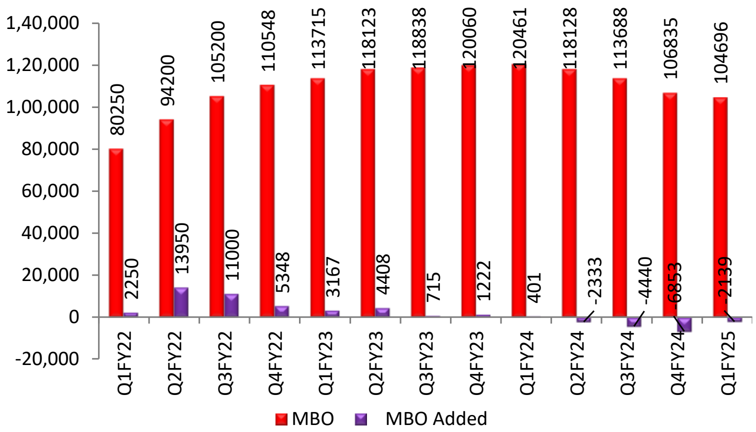
Source: Company, Systematix Institutional Research

Exhibit 8: Earnings grew 4.3% YoY



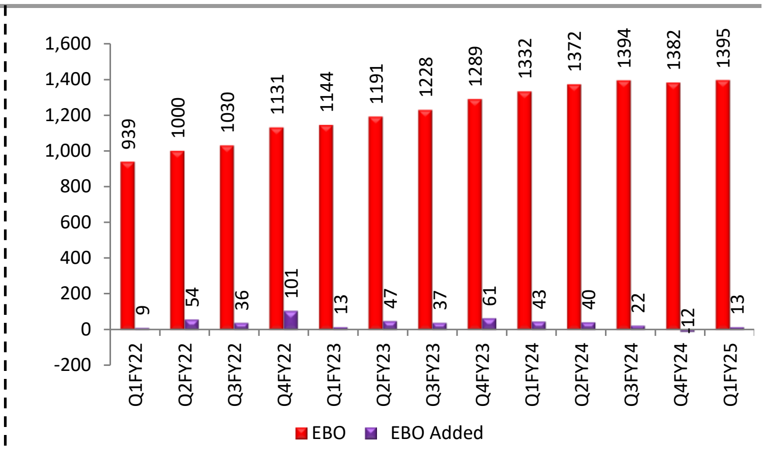
Source: Company, Systematix Institutional Research

Exhibit 9: Rationalization continued in the MBO channel



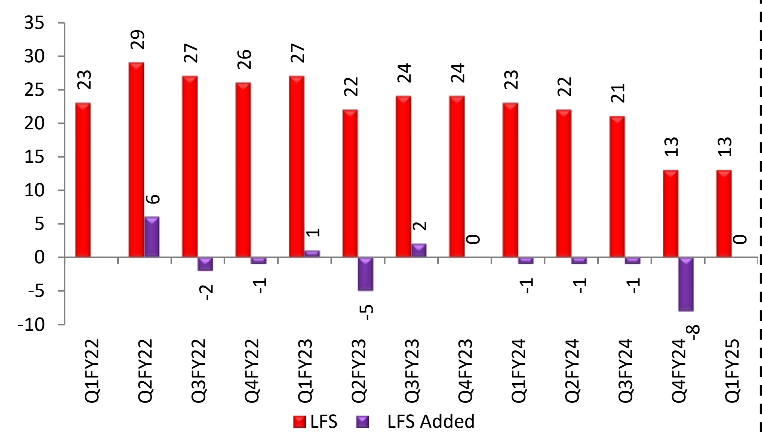
Source: Company, Systematix Institutional Research

Exhibit 10: EBO network at 1395



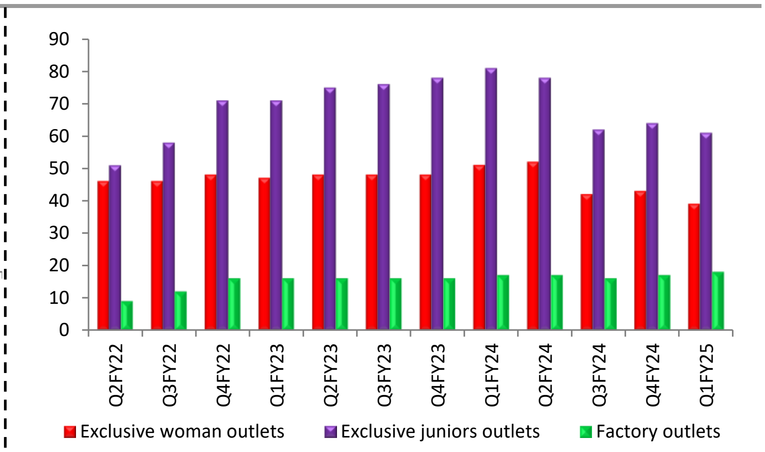
Source: Company, Systematix Institutional Research

Exhibit 11: LFS partner count stands at 13



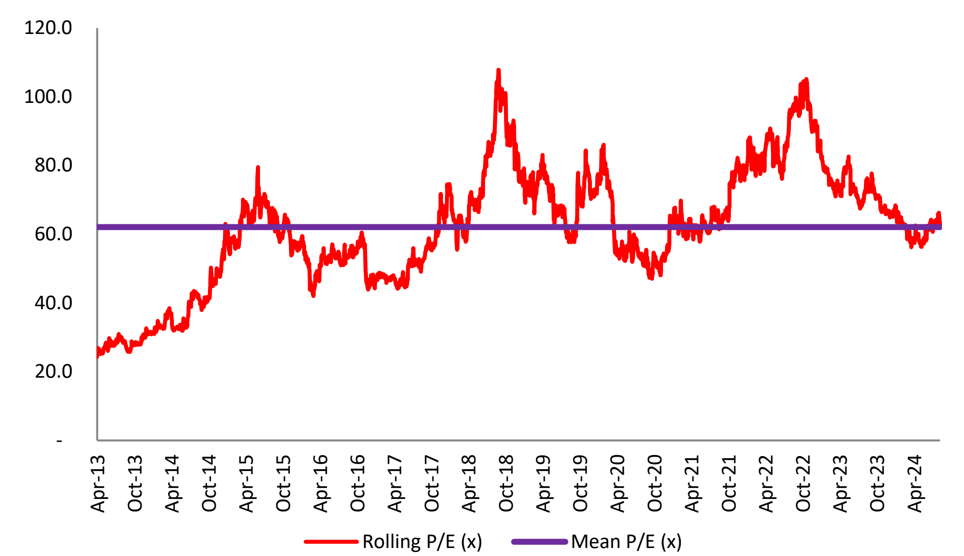
Source: Company, Systematix Institutional Research

Exhibit 12: Strong network expansion across the product portfolio



Source: Company, Systematix Institutional Research

Exhibit 13: Currently trading at 62.8x one year forward P/E



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	**38,865**	**47,886**	**45,817**	**51,825**	**60,787**
Gross profit	21,775	26,207	24,971	29,022	34,345
GP margin (%)	56.0%	54.7%	54.5%	56.0%	56.5%
Operating profit	**7,855**	**8,627**	**8,723**	**10,128**	**12,544**
OP margin (%)	20.2%	18.0%	19.0%	19.5%	20.6%
Depreciation	655	781	908	1,089	1,207
EBIT	7,200	7,847	7,814	9,040	11,337
Interest expense	322	413	449	447	465
Other income	210	147	200	220	241
Profit before tax	7,088	7,581	7,565	8,812	11,114
Taxes	1,722	1,869	1,858	2,203	2,778
Tax rate (%)	24.3%	24.6%	24.6%	25.0%	25.0%
Adj. PAT	**5,365**	**5,712**	**5,707**	**6,609**	**8,335**
Exceptional loss	-	-	-	-	-
Net profit	5,365	5,712	5,707	6,609	8,335
EPS	**481**	**512**	**512**	**593**	**747**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	112	112	112	112	112
Reserves	10,775	13,599	15,858	17,054	18,563
Debt	-	2,482	-	-	-
Deferred tax liab (net)	-	-	-	-	-
Other non current liabilities	820	1,282	1,475	1,551	1,632
Total liabilities	**11,706**	**17,474**	**17,444**	**18,717**	**20,306**
Fixed Asset	3,766	4,905	5,590	5,790	6,584
Investments	-	-	-	-	-
Other Non-current Assets	3,069	4,529	4,736	5,024	5,439
Inventories	9,749	15,953	11,703	12,779	14,989
Sundry debtors	1,651	1,461	1,586	1,846	2,165
Cash & equivalents	**2,835**	**81**	**3,210**	**3,811**	**3,462**
Loans and Advances	-	-	-	-	-
Sundry creditors	3,628	2,876	2,200	3,124	3,664
Other current liabilities	5,735	6,578	7,182	7,409	8,668
Total Assets	**11,706**	**17,474**	**17,444**	**18,717**	**20,306**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBIT	7,410	7,994	8,014	9,259	11,579
Depreciation	655	781	908	1,089	1,207
Tax paid	(1,722)	(1,869)	(1,858)	(2,203)	(2,778)
Working capital Δ	(2,238)	(5,923)	4,052	(184)	(730)
Other operating items	-	-	-	-	-
Operating cashflow	**4,104**	**983**	**11,116**	**7,961**	**9,277**
Capital expenditure	(1,256)	(1,920)	(1,593)	(1,289)	(2,000)
Free cash flow	**2,848**	**(937)**	**9,523**	**6,671**	**7,277**
Equity raised	1,501	1,790	1,381	0	-
Investments	-	-	-	-	-
Debt financing/disposal	(0)	2,482	(2,482)	-	-
Interest Paid	(322)	(413)	(449)	(447)	(465)
Dividends paid	(4,829)	(4,679)	(4,829)	(5,413)	(6,827)
Other items	(713)	(998)	(15)	(211)	(334)
Net Δ in cash	**(1,515)**	**(2,754)**	**3,129**	**600**	**(348)**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue growth (%)	37.2	23.2	-4.3	13.1	17.3
Op profit growth (%)	49.2	9.8	1.1	16.1	23.9
Net profit growth (%)	57.5	6.5	-0.1	15.8	26.1
OPM (%)	20.2	18.0	19.0	19.5	20.6
Net profit margin (%)	13.8	11.9	12.5	12.8	13.7
RoCE (%)	75.1	59.0	49.8	55.9	64.6
RoNW (%)	54.4	46.4	38.5	39.9	46.5
EPS (Rs)	481.0	512.2	511.6	592.5	747.3
DPS (Rs)	432.9	419.5	432.9	485.3	612.0
BVPS (Rs)	976.0	1229.2	1431.7	1539.0	1674.2
Debtor days	16	11	13	13	13
Inventory days	92	122	93	90	90
Creditor days	34	22	18	22	22
P/E (x)	84.5	79.4	79.5	68.6	54.4
P/B (x)	41.7	33.1	28.4	26.4	24.3
EV/EBITDA (x)	57.4	52.8	51.6	44.4	35.9

Source: Company, Systematix Institutional Research

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